



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR AUGUST 31, 2010

The National Hurricane Center said Hurricane Earl remained a Category 4 storm early Tuesday. It maintained its path projections, which call for Earl to turn gradually to the northwest later Tuesday and continuing through Wednesday. On that path, Earl would run mostly parallel to the US East Coast but with the possibility of landfall beginning in North Carolina early Friday and continuing up the coast and over major metropolitan areas still as a hurricane. It cautioned that the storm's direction could prompt a hurricane watch for portions of the Mid-Atlantic coast later Tuesday. The NHC also stated that Tropical Storm Fiona was about 590 miles east of the Leeward Islands. It was moving west-northwest at 23 mph on a course that was expected to take it northeast of the Leeward Islands on

Market Watch

According to the Conference Board, US consumer confidence increased modestly in August. It said its index of consumer attitudes increased to 53.5 in August from an upwardly revised 51 in July. The expectations index increased to 72.5 from 67.5 in July. The present situation index fell to 24.9, the lowest level since February, from 26.4 in July.

The S&P/Case-Shiller index of property values in June increased 4.2% on the year and 0.3% on the month.

The Institute for Supply Management-Chicago said its business barometer fell to 56.7 in August, down from 62.3 in July. The employment component of the index fell to 55.5 from 56.6 in July. New orders fell to 55 from 64.6.

The Federal Reserve said the committee would need to consider steps it could take to provide additional policy stimulus if the outlook were to weaken appreciably further. Federal Reserve officials agreed to reinvest maturing mortgage related securities in longer term US government debt to hold the Fed's balance steady at about \$2 trillion and keep in place supports for the economic recovery.

The CFTC said US index investment in commodities in July was net long \$170.4 billion compared with \$160.6 billion in June, with WTI crude contributing \$38.3 billion or the equivalent of 480,000 net long contracts. There was a total long position of 640,000 contracts and a short position of 160,000 contracts. Index investment in commodities in July grossed \$278.4 billion, up from \$263.9 billion in June.

The Euro priced Brent and WTI crude oil debuted at the opening of the Singapore Mercantile Exchange at 61 euros and \$75/barrel, respectively.

India's Finance Minister Pranab Mukherjee said the country's economy is on track to grow 8.5% in the current fiscal year ending in March. The economy grew 8.8% in the second quarter, its fastest rate since December 2007.

Factory output in Japan increased in July however manufacturing activity in August expanded at its slowest pace in more than a year. Manufacturers surveyed by the government expect output to increase 1.6% in August less than a 2% gain forecast a month ago. Industrial output increased by 0.3% in July after a 1.1% decline in June. The Ministry of Economy, Trade and Industry's survey of manufacturers increased by 0.2% in September following an expected increase of 1.6% in August.

API Stocks

Crude – up 4.765 million barrels
Distillate – down 1.86 million barrels
Gasoline – down 589,000 barrels
Refinery runs – down 0.2% at 84.8%

Wednesday. None of the forecast models took the storm into the Gulf of Mexico.

BP Plc said plans to remove a capping stack and replace the blow out preventer at the Macondo well remain on hold due to high seas in the Gulf of Mexico. It said it is ready to restart the operation as soon as wave heights reach acceptable

levels.

Iran's atomic chief Ali Akbar Salehi said Iran would need two more weeks to complete the process of loading fuel into its Bushehr nuclear power plant. He said the process of loading 163 fuel rods into the nuclear power plant started August 21st and is expected to be completed by September 5th. The rods will then have to be transferred to the reactor.

According to a Spending Pulse report by MasterCard Advisors LLC, US gasoline demand fell by 3.1% or 293,000 bpd to 9.169 million bpd in the week ending August 27th. Gasoline demand was up 0.7% or 68,000 bpd on the year. In the latest four weeks, demand averaged 9.405 million bpd, up 78,000 bpd or 0.8% on the year. It reported that the average retail price of gasoline fell by 4 cents to \$2.68/gallon.

The Brazilian Oil Workers Union, or FUP, voted to strike for eight hours on Friday. The workers will strike for higher wages and better working conditions. They are seeking a 10% salary increase in addition to an inflation adjustment and better conditions for oil workers. The walkout will likely have little effect on operations at Petrobras' platforms and refineries.

France's CGT union called on energy workers to carry out a one-day strike over pension reform on September 7th.

Refinery News

Enbridge Inc said it completed pressure test of Line 6B in Michigan on Monday evening. It said tests of the pipeline showed no leaks. There is no schedule yet for Line 6B to restart.

ConocoPhillips said it was restarting process units at its 306,000 bpd Wood River refinery in Roxana, Illinois late Monday afternoon following a power failure over the weekend.

Valero Energy Corp said its coker unit at its 170,000 bpd Benicia, California refinery was in restart mode. The unit was shut down on June 23rd for a 40 day planned turnaround that was extended in August to about 60 days.

Hovensa LLC said its 500,000 bpd St. Croix refinery remained operational on Monday and Tuesday as Hurricane Earl passed through the region.

The Idaho Supreme Court agreed to hold an expedited hearing for an appeal to a district court decision last week that revoked a trucking permit that would allow ConocoPhillips to transport equipment to its Montana refinery on a local highway. Conoco is seeking to transport two coke drums from Lewiston, Idaho to its 58,000 bpd refinery in Billings, Montana for maintenance expected to begin in 2011. The trucking permit was revoked last week on concerns about potential traffic delays and possible harm to the Clearwater and Lochsa Rivers that run adjacent to US Highway 12.

Russia's Energy Ministry reported that Russian refineries processed 5.07 million bpd of crude in July, up 2.6% from 4.94 million bpd in June.

**August
Calendar Averages**
CL – \$76.67
HO – \$2.0540
RB – \$1.9944

Japan's Ministry of Economy, Trade and Industry reported that the country's crude oil imports in July increased by 1.3% on the year to 17.63 million kiloliters or 3.58 million bpd. Japan's overall oil product output increased by 0.2% on the year to 15.84 million kiloliters or 3.215 million bpd while domestic sales increased by 4.6% on the year to 15.5 million kiloliters or 3.145 million bpd. It also reported that Japan's imports of liquefied natural gas from Russia more than tripled from a year earlier to 3.5 million metric tons in the first seven months of the year. Japan's crude oil inventory increased by 1.6% on the year to 106.127 million barrels while its product inventories fell by 3.5% on the year to 71.948 million barrels.

Urals crude supplies from the Baltic Sea port of Primorsk are expected to fall by 6.8% on the month in September to 5.5 million tons. Urals crude supplies from the Black Sea port of Novorossiisk are expected to fall by 2% on the month to 3.38 million tons. Oil shipments of Siberian Light crude via the Black Sea port of Tuapse are expected to reach 421,000 tons.

Production News

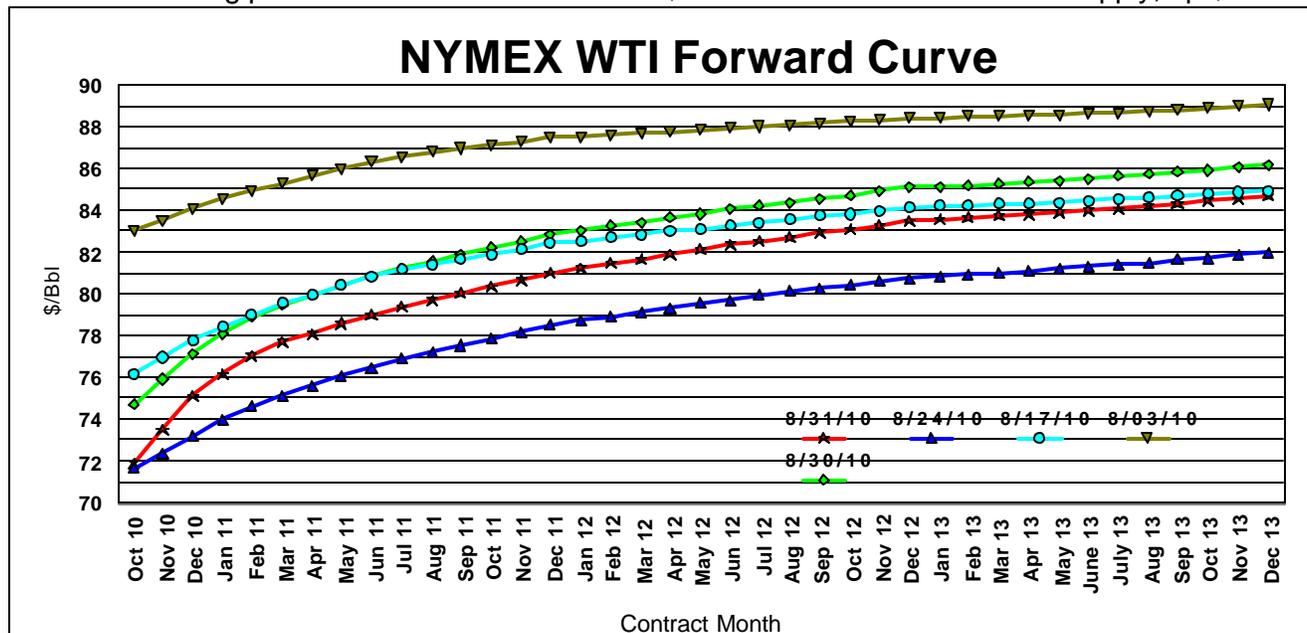
A senior Iraqi oil official said crude oil pumping from northern Iraq's Kirkuk oil fields to the Turkish port of Ceyhan, which has been halted since Sunday, is expected to resume in two days. He said two more days are needed to fix a leak in part of the northern export pipeline. He also said that a power fault that hit a section of the pipeline also contributed to the suspension of flows on Sunday.

According to a Bloomberg survey, OPEC's oil production fell in August to a seven month low of 29.15 million bpd, down 75,000 bpd or 0.3% on the month. Oil production from members with quotas, except Iraq, fell by 5,000 bpd to 26.805 million bpd, still 1.96 million bpd above their target. Iraq's oil production fell by 70,000 bpd or 2.9% to 2.345 million bpd in August.

Russia's Lukoil said the government is ready to introduce tax breaks for oil extracted from its Korchagin fields on the Caspian Sea. Unlike other greenfields in East Siberia being developed by competitors Rosneft and TNK-BP, Lukoil's Korchagin fields do not currently benefit from tax breaks on export duties.

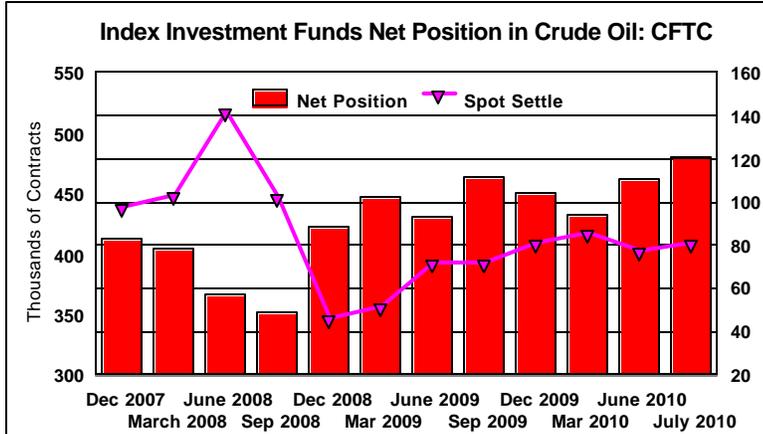
Kazakhstan's Finance Ministry said the country will double its crude export duty to \$40/ton next year to increase revenue.

The official selling price of Oman crude was set at \$74.58/barrel for October term supply, up \$2.12 on



the month.

OPEC's news agency reported that OPEC's basket of crudes increased by 69 cents to \$73.05/barrel on Monday from \$72.36/barrel on Friday. It also reported that OPEC's basket of crudes fell by \$1.80/barrel to \$70.88/barrel in the week ending August 27th.



Market Commentary

Crude oil based upon the spot contract, finished the month of August trading down 12 percent. This is the largest one-month tumble since the month of May when prices ended down 14 percent. A disparity in economic news, expectations that Hurricane Earl will impact gasoline consumption ahead of the U.S. Labor Day weekend and analysts estimating inventory builds were the driving force behind today's market movement. Losses were

momentarily pared after The Conference Board's confidence index rose to 53.5 in August. Crude oil has been trading erratically within the \$67.00 to \$83.00 dollar range since May and from a technical and fundamental perspective appears headed back down to the bottom of this range. Based upon a weekly chart, this is the second week in a row that prices are trading below a long-standing trendline, failing to settle below it last week. So far, moving oscillators are pointing to additional moves lower, but we will have to wait and see what the end of this week posts as far as settlement. For now, the downtrend should continue, barring any surprises in the DOE numbers tomorrow.

The API reported a larger than expected build in crude stocks of 4.765 million barrels on the week, with a draw of 3.751 million barrels in Padd 3. It reported the large build in crude stocks despite a fall in crude imports of 1.149 million bpd to 9.209 million bpd. It also reported the build as refinery input fell by 521,000 bpd to 20.85 million bpd on the week. The API reported a larger than expected draw in distillate stocks of 1.86 million barrels on the week. It reported a draw of 1.236 million barrels in Padd 2. Distillate stocks fell as apparent demand increased by 9.9% on the week to 4.693 million bpd and apparent demand basis its three week moving average increased by 3.9% to 4.366 million bpd. Distillate imports fell by 168,000 bpd or 49.1% on the week to 174,000 bpd. Meanwhile, gasoline stocks fell by 589,000 barrels on the week as production fell by 157,000 bpd or 1.6% to 9.381 million bpd and imports fell by 81,000 bpd or 77.1% to 81,000 bpd on the week. Apparent gasoline demand fell slightly by 0.6% on the week to 9.489 million bpd and apparent demand basis its three week moving average fell by 0.8% to 9.403 million bpd.

Crude oil: Oct 10 310,63 +7,549 Nov 10 151,598 +7,166 Dec 10 195,681 +1,203 Totals 1,264,379 +22,340 Heating oil: Sept 10 7,455 -4,992 Oct 10 90,713 +3,180 Nov 10 44,284 +1,765 Totals 320,084 +3,547 Rbob: Sept 10 9,129 -8,388 Oct 10 90,754 Nov 10 48,163 +715 Totals 236,022 -7,377.

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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