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## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR SEPTEMBER 1, 2010**

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The National Hurricane Center said Hurricane Earl is beginning to strengthen and could become a category four storm later Wednesday as it moves towards the US East Coast. Hurricane Earl is moving towards the northwest at 17 mph and is expected to take a gradual turn for the north on Thursday, when it is forecast to approach the North Carolina coast. The National Hurricane Center also reported that Tropical Storm Fiona was moving toward the northwest near 17 mph. It is expected to continue on this path with a turn toward the north-northwest and a

#### **Market Watch**

According to ADP's national employment report, private sector jobs in the US fell by 10,000 in August compared with expectations of job gains of 17,000. The estimated change in employment for July was revised to a gain of 37,000 from an increase of 42,000 initially reported. The August unemployment rate is projected to increase to 9.6% from 9.5% in July. The latest ADP report showed that large businesses with 500 employees or more added 1,000 new employees while medium sized businesses cut 5,000 workers in August and small businesses that employ fewer than 50 workers cut payrolls by 6,000. Friday's non-farm payroll report is expected to show a fall of 100,000 jobs in August.

The US manufacturing sector grew more quickly than expected in August. The Institute for Supply Management manufacturing index increased to 56.3 in August from 55.5 in July. The report's employment component increased to 60.4 from 58.6 in July.

The Commerce Department said US construction spending fell in July to the lowest level in 10 years. Spending on construction projects fell by 1% to a seasonally adjusted annual rate of \$805.16 billion compared to the prior month. June spending was revised down, falling by 0.8% compared with an initial estimate of an increase of 0.1%. The report showed that spending on US residential projects fell by 2.5% to \$250.52 billion after falling by a revised 1.6% in June.

Growth in Britain's manufacturing sector slowed more than expected in August, led by the weakest expansion in new orders for more than a year. The Markit/Chartered Institute of Purchasing and Supply Manufacturing PMI fell to 54.3 in August, down from a downwardly revised 56.9 in July. Britain's manufacturing new orders index fell to 52 in August, down from 58.5 in July.

China's manufacturing sector had a moderate rebound in August after slowing for several months amid government measures to rein in credit and deter property speculation. HSBC's Purchasing Managers' Index increased to a three month high of 51.9 in August from 49.4 in July. China Federation of Logistics and Purchasing's PMI increased to 51.7 from 51.2.

The Japan Automobile Dealers Association said automobile sales in Japan increased 46.7% in August from a year earlier to 290,789 vehicles.

Russia's Reserve Fund stood at 1.23 trillion rubles or \$40.08 billion on September 1<sup>st</sup>, relatively unchanged from a month earlier. By the end of the year, the Finance Ministry expects the oil Reserve Fund to fall to 300 million rubles.

### DOE Stocks

**Crude** – up 3.425 million barrels  
**Distillate** – down 739,000 barrels  
**Gasoline** – down 212,000 barrels  
**Refinery runs** – down 0.7%, at 87%

decrease in forward speed by late Thursday. The center of the storm is currently passing north of the Leeward Islands into the open Atlantic Ocean. The National Hurricane Center said Tropical Storm Gaston has formed in the Atlantic Ocean. It is the seventh named storm of the season and the fourth tropical storm in the past eleven days. It is located 895 miles west-southwest of the Cape Verde Islands. It is moving west

at 15 mph and a west-northwest motion with a significant decrease in forward speed is expected in the next several days.

Commodity Weather Group, a private weather forecaster said the Atlantic hurricane season is expected to see more activity between mid-September and mid-October and could still pose a threat to energy production in the Gulf of Mexico. It said the Gulf could see at least one Category 3 hurricane before the season is over.

A federal judge in New Orleans rejected the US government's request to dismiss a lawsuit challenging its original 6 month deepwater drilling moratorium. Hornbeck Offshore Services Inc and other oil companies sued the government when it first ordered a halt to deepwater drilling in the Gulf of Mexico. The judge said the government's amended moratorium offered no substantial changes from the first one.

The Energy Department said US gasoline prices this Labor Day weekend are expected to be the second lowest for the holiday in five years at \$2.68/gallon. It is up from last year's \$2.59/gallon level.

Vitol Holding plans to extend its time charter contract for an ultra large crude carrier for storage in the US Gulf of Mexico by another one or two months. Vitol is in talks to charter ULCC Ti Europe for 30 days of storage from early September with an option of another 30 days. ULCCs have the capacity to hold 3 million barrels of crude.

The growth in commodity derivatives is expected to slow following a period of growth in the past decade. It is expected to expand much more slowly in the next few years. It is unlikely that futures and options markets for oil and gas, as well as industrial metals such as copper and aluminum will experience significant growth in the next 2-3 years. Existing opportunities for expanding the use of derivatives as a tool for risk management and investment appear to have been fully exploited in oil and gas. Also lack of volatility will limit interest in hedging and investment to existing market users.

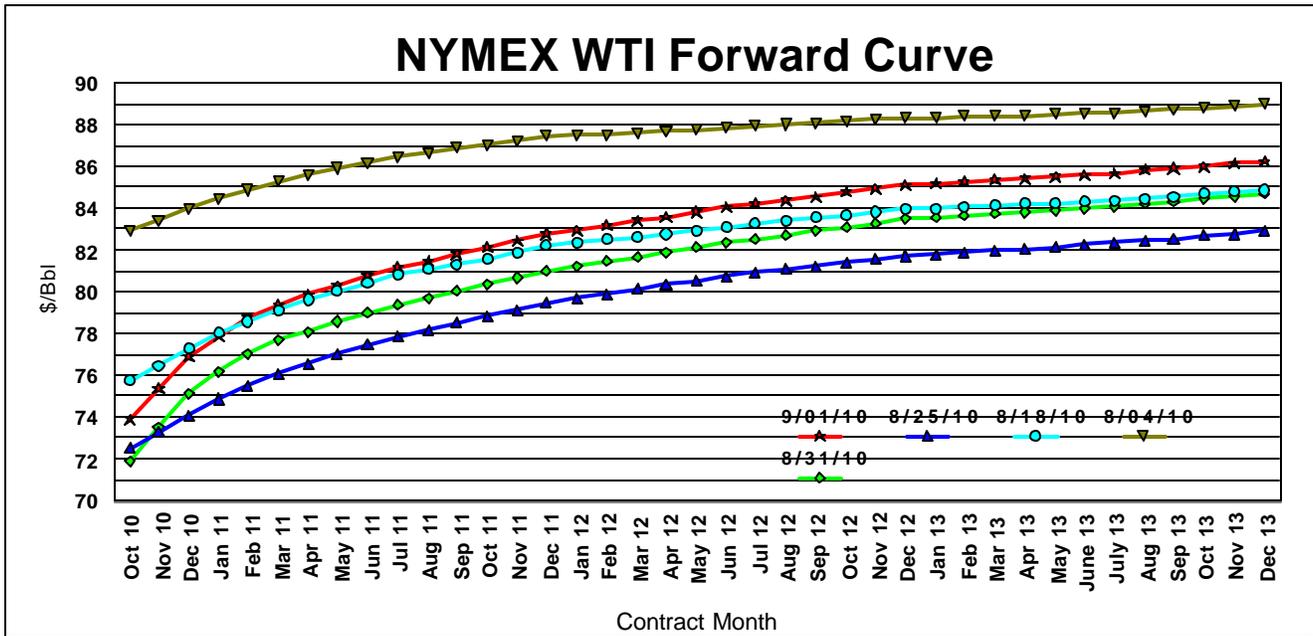
### Refinery News

Oil refineries along the Atlantic coast were monitoring Hurricane Earl as it made its way up the coast. The storm's path is likely to miss the US East oil refineries in New Jersey and Pennsylvania. ConocoPhillips' 185,000 bpd Trainer, PA refinery and its 238,000 bpd Linden, NJ refinery are monitoring the storm. Also, Imperial Oil's 82,000 bpd Dartmouth refinery, Irving Oil's 300,000 bpd refinery, North Atlantic's 115,000 bpd Come by Chance refinery, Sunoco's 335,000 bpd Philadelphia and 178,000 bpd Marcus Hook, PA refinery and Valero's 195,000 bpd Paulsboro, NJ refinery are watching Hurricane Earl.

Valero Energy Corp said the coker unit at its 170,000 bpd Benicia, California refinery was ramping up to planned rates. The unit was shut on June 23<sup>rd</sup> and restarted this week.

ExxonMobil Corp expects to restart its crude distillation unit at its Trecate refinery in Italy soon after it was forced to shut down following a fire on Tuesday. The refinery's other crude distillation unit is covering the facility's output obligations.

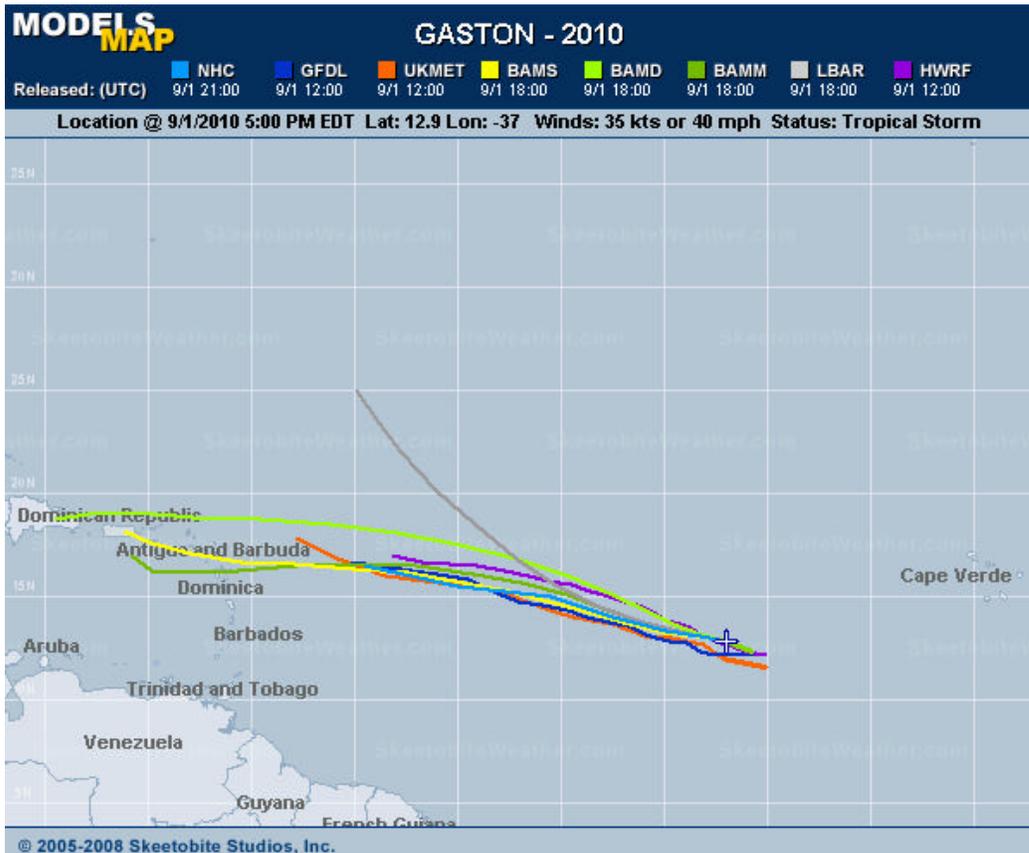
**September  
Calendar Averages**  
**CL – \$73.91**  
**HO – \$2.0411**  
**RB – \$1.8891**



Magellan Midstream Partners LP closed on acquisition of petroleum storage and pipelines. It will acquire certain crude oil tank working inventory at fair market value. It said its crude oil construction project now totals 4.25 million barrels of storage. It plans to construct incremental 2.25 million barrels of crude oil storage in Cushing, Oklahoma.

China's C1 Energy reported that the country's fuel oil imports in August fell by 8% on the month to 1.7 million metric tons. Imports were up 5% on the year.

Crude oil exports in August through the Caspian Pipeline Consortium or CPC increased by 10.2% on the year to 3.12 million metric tons or 24.35 million barrels. The CPC revised up its September crude exports through the pipeline by 5% to 2.7 million metric tons or 661,000 bpd from 2.58 million tons.



China National Petroleum Corp said the oil product pipeline to southwestern China has resumed operations after floods in the region caused the suspension of operations earlier this month. The move will ease tightness in fuel supplies in southwestern China as the pipeline linking Lanzhou city and Chongqing city supplies about 70% of the oil products consumed in the region. The pipeline has an annual capacity of more than 6 million metric tons.

The Petroleum Association of Japan reported that the country's crude stocks in the week ending August 28<sup>th</sup> fell by 336,746 kl to 15.477 million kl or 97.35 million barrels. Japan's gasoline stocks increased by 23,875 kl to 2.045 million kl while gasoil stocks increased by 147,598 kl to 1.944 million kl, kerosene stocks increased by 70,600 kl to 2.18 million kl, naphtha stocks increased by 163,383 kl to 1.941 million kl and jet fuel stocks increased by 2,532 kl to 1.043 million kl.

Estonia's main oil loading port, the port of Tallinn, shipped 2.349 million tons of oil products in August, up 21% on the year and up from 2.259 million tons loaded in July.

Turkey's statistics office reported that the country's gasoline exports to Iran fell by 74% in July after US led sanctions against the country came into force. Turkey exported 35,444 tons or 301,272 barrels of gasoline to Iran in July. Turkey received \$24.42 million from Iran for the gasoline sales, which amounted to an average of \$688/ton.

### **Production News**

According to a Reuters survey, OPEC members bound by quotas, excluding Iraq, produced a total of 26.83 million bpd in August, down from 26.95 million bpd in July. The production level was 1.99 million bpd above their target of 24.84 million bpd, leaving compliance at 53%, up 3% on the month. Total OPEC production fell by 140,000 bpd to 29.09 million bpd, the lowest level since November 2009. Nigeria's oil production fell by 160,000 bpd to 2.12 million bpd. Iraq's oil production fell by 20,000 bpd to 2.26 million bpd in August.

Brazil's Trade Ministry reported that the country's crude exports in August totaled 2.902 million tons, up from 1.504 million tons in July.

OPEC's news agency reported that OPEC's basket of crudes fell to \$72.39/barrel on Tuesday from \$73.05/barrel on Monday.

### **Market Commentary**

A rise in U.S. and Chinese manufacturing gave a boost to crude oil prices, sending the October contract back above \$74.00 a barrel. Crude oil ignored the 3.4 million build in inventories. Equity markets remain susceptible to ongoing economic news and that susceptibility will continue to spill over into the energy markets, allowing for choppy market conditions. With fundamentals changing as they have and short-term technicals swinging from bearish to bullish, the established range of \$67.00 and \$83.00 doesn't appear to be in jeopardy. For now, we would look to buy and sell at the listed support and resistance numbers.

Crude oil: Oct 10 316,484 +5,881 Nov 10 162,426 +10,828 Dec 10 203,457 +7,776 Totals 1,308,042 +43,663 Heating oil: Oct 10 87,490 -3,223 Nov 10 45,937 +1,653 Dec 10 54,614 +2,164 Totals 314,911 -5,173 Rbob: 92,877 +2,123 Nov 10 49,761 +1,598 Totals 235,012 -1,010.

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
7190	7559	18965	22530	18240	
7109	7634	19236	22700	<b>16010</b>	22345
7000	7781	18920	22945		24880
6715	7831		23775		27085

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