



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR SEPTEMBER 6, 2011**

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The US National Hurricane Center said a low pressure system located about 680 miles southwest of the southern Cape Verde Islands has 70% chance of becoming a tropical cyclone in the next 48 hours. The system was moving northwestward at about 15 mph. Meanwhile another system near the southern Gulf of Mexico had a 20% chance of becoming a tropical cyclone during the next couple of days.

#### **Market Watch**

The US non-manufacturing sector defied expectations and strengthened in August. The ISM's non-manufacturing purchasing managers' index increased to 53.3 from 52.7 in July. It said August's new-orders Index increased to 52.8 from 51.7 in July while its business activity/production index fell to 55.6 from 56.1. The ISM employment index fell to 51.6 in August from 52.5 in July. The prices index increased to 64.2 from 56.6 in July.

The Kansas City and Dallas Federal Reserve sought to raise the discount rate the central bank charges banks for emergency loans three times over the course of the summer. The remaining 10 regional Fed banks wanted to keep the discount rate at its current level of 0.75%.

Global stock markets fell on Tuesday on fears about a US recession and the European debt crisis worsening, while the Swiss Franc fell against the Euro after Switzerland's central bank sought to slow the move to its currency as a safe haven. The Swiss central bank pegged its currency to the euro at 1.20 francs.

BP chief executive Bob Dudley said there were no quick fixes to the oil company's problems and that he would focus on long term goals. BP's shares are currently below the level they traded at when the company capped the Macondo well a year ago, defying analysts' predictions of a rapid rebound after the oil spill.

Offshore oil and gas producers were returning workers to their Gulf of Mexico platforms on Tuesday as weather improved after high winds and rough seas hampered such efforts in the aftermath of Tropical Storm Lee. BP said crews will assess damage and turn on needed electrical and support systems before restarting production. Royal Dutch Shell began restaffing its central and eastern Gulf platforms on Tuesday to assess their status and begin resuming production. It said complete Gulf of Mexico production ramp up to pre-storm levels may take three to five days. Spokesmen for Chevron Corp and Apache Corp also said restaffing and restarting efforts were underway on Tuesday. Anadarko Petroleum Corp also restaffed its eight platforms.

The Bureau of Ocean Energy Management, Regulation and Enforcement reported that personnel were evacuated from a total of 131 production platforms and 12 rigs in the Gulf of Mexico due to Tropical Storm Lee. It reported that 60.5% of US Gulf oil production was shut in due to the storm. A total of 846,670 bpd of oil equivalent was shut in.

#### **September**

#### **Calendar Averages**

**CL – \$87.13**

**HO – \$3.0198**

**RB – \$2.8516**

The EIA reported that the US average retail price of diesel increased by 4.8 cents to \$3.868/gallon in the week ending September 5<sup>th</sup>. It also reported that the US average retail price of gasoline increased by 4.7 cents to \$3.674/gallon on the week.

The Energy Department said all of 30.64 million barrels of crude oil sold from the SPR has been delivered as of September 2<sup>nd</sup>. The loading of the last 500,000 barrels aboard a vessel was completed on Friday.

OPEC is set to admit the National Transitional Council, as Libya's representative after the UN recognizes it as the legitimate government. The UN is widely expected to vote in favor of the NTC when it meets at its next session starting September 13<sup>th</sup> following the fall of the regime of Muammar Gaddafi. Meanwhile, Libya's NTC said it would respect existing oil contracts.

Goldman Sachs managing director in Energy, Michele della Vigna said the oil industry could be facing a severe bottleneck within the next two years, as an unprecedented amount of projects of increasing complexity is set to pressure the current capacity of the oil services industry. He said with the amount and complexity of activities planned from next year, full utilization of the service industry by 2012-13 is expected. This would result in delays and higher costs which could impact supply.

Iran's nuclear chief Fereydoun Abbasi Davani clarified that its offer of allowing full supervision of its atomic program in return for lifting of sanctions does not include snap checks by UN inspectors of its nuclear units. He said Iran was prepared to give the IAEA full supervision of its nuclear program for five years if UN sanctions are lifted.

### **Refinery News**

Colonial Pipeline is allocating its main distillate line for Cycle 52.

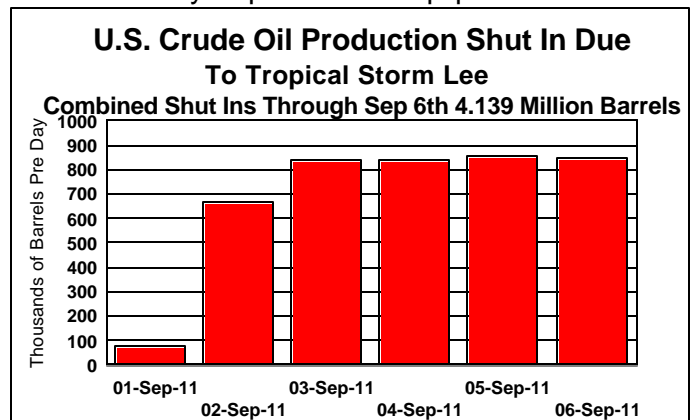
Enterprise Products Partners is expected to restart the Cameron Highway Oil Pipeline and the Poseidon Pipeline in the Gulf of Mexico in the aftermath of Tropical Storm Lee. Both of its crude pipelines were shut in for the storm.

The Louisiana Offshore Oil Port should resume normal operations on Tuesday afternoon as weather conditions improve in the aftermath of Tropical Storm Lee. High winds and rough seas had kept tanker offloadings suspended after Tropical Storm Lee came ashore and weakened on Sunday.

ConocoPhillips' 247,000 bpd Belle Chase, Louisiana refinery reported an equipment failure on Sunday while it operated at very low rates due to Tropical Storm Lee. It said the storm did not impact its operations.

Valero Energy Corp reduced rates at its 250,000 bpd St. Charles refinery in Norco, Louisiana due to upsets at the tail gas treating unit and a sulfur recovery unit.

ExxonMobil Corp's 149,500 bpd refinery in Torrance, California sustained an equipment failure on Tuesday but continued to operate.



Sinclair Oil Corp's refinery in Sinclair, Wyoming is operating at reduced rates while it undergoes damage assessments following two recent fires at the plant's crude oil processing unit. The cause of the fires, which happened Thursday afternoon and early Friday morning is under investigation.

Sunoco Inc plans to exit its low margin refining business to focus on its more profitable pipeline and retail marketing operations. Sunoco's refining margins are weighed down as it processes more expensive grades of oil in the US East Coast. Sunoco said it would pursue all options to sell its 178,000 bpd Marcus Hook and 335,000 bpd refinery in Philadelphia but if it was unable to strike a suitable deal, it would idle the main processing units at the facilities in July next year.

### Production News

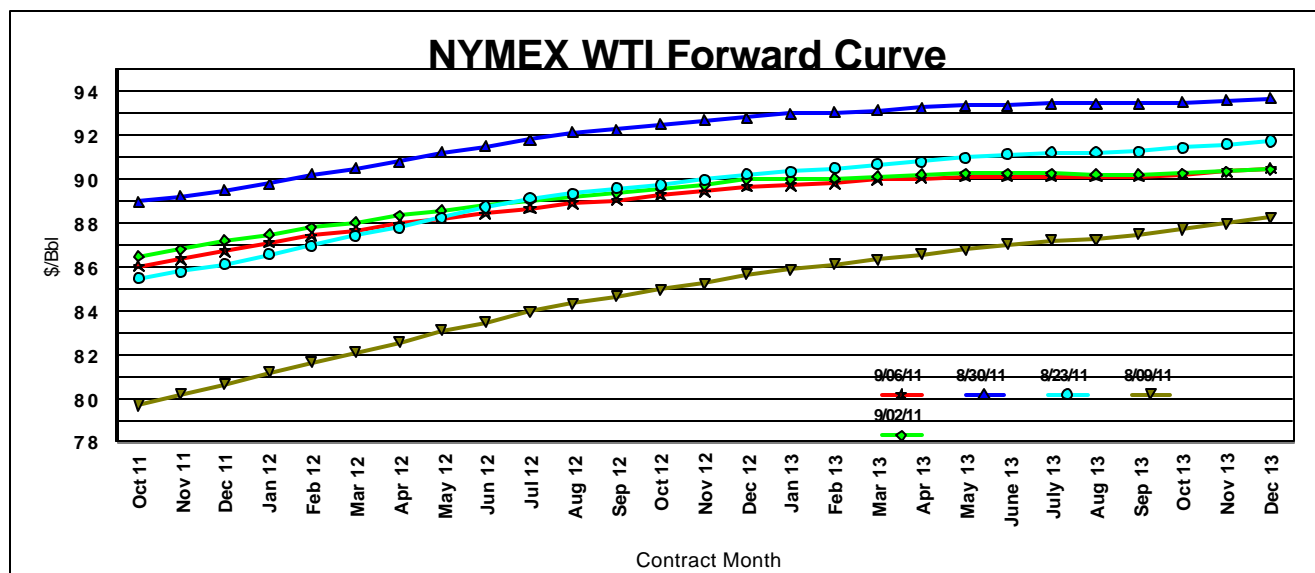
Fifteen cargos of North Sea Forties crude for September loading have been delayed. A total of 24 Forties cargoes were originally scheduled to load in September however one was later cancelled.

The newly appointed chairman of Libya's National Oil Co, Nuri Berruien said Libya's oil production will not return to the pre-war level of 1.6 million bpd until late 2012 at the earliest.

Libya's Arabian Gulf Oil Co could produce 200,000 bpd as early as next month. The ramp up would, within just a month, bring the fields operated by Benghazi-based Libyan state oil company to nearly half its production before the war, which was 425,000 bpd. Its oil production is expected to restart at 100,000 bpd.

BP Plc said its plan to develop the Kinnoull reservoir in the central North Sea can proceed after the UK government approved the project. The Kinnoull reservoir is the largest of three reservoirs that are being developed as part of the Andrew Area developments project and contains 45 million barrels of oil equivalent. The reservoir would be connected to BP's Andrew platform and enable production to be extended to 2020 and beyond. Production from Kinnoull is forecast to peak at 45,000 bpd and be exported via the existing Forties pipeline system to Kinneil and the CATS pipeline system to Teesside.

Brazil's National Secretary of Production and Agroenergy said sugar production in Brazil is likely to fall to 37.07 million metric tons in the crop year that started April 1<sup>st</sup>. Brazil is estimated to have produced 38.17 million tons in 2010-11. Brazil's production of ethanol is also declining due to lower availability of sugarcane.



## **Market Commentary**

Mounting concern over the global economy continues to weigh on energy prices, which experienced a delayed reaction to yesterday's European weakness. Global demand is once again causing alarm, following Friday's disappointing U.S. employment figures and the status of European sovereign debt. Today's weakness in the WTI, combined with North Sea tightness, widen the spread between WTI and Brent to a record differential of \$27.05. Those looking for a secure haven against the Swiss Franc, which succumbed to tremendous pressure, most likely sought Brent as their safety net, thereby widening the spread. With the Chinese economy reaming steady and economic concern mounting in other areas of the globe, the spread should experience deeper widening. Technically, crude oil continued its retreat from the \$90.00 area and appears to be establishing a new trading range of \$75.00-\$90.00. Near term, we would look for continued downside pressure and for prices to test the bottom of this range.

Crude oil: Oct 11 277,716 -5,574 Nov 11 187,085 +1,496 Dec 11 207,143 -2,223 Totals 1,523,572 -4,382 Heating oil: Oct 11 93,595 -2,256 Nov 11 44,299 +1,189 Dec 11 53,483 +516 Totals 307,953 +1,977 Rbob: Oct 11 83,513 +2,148 Nov 11 44,503 +2,625 Dec 11 43,931 -511 Totals 259,754 +6,567

<b>Crude Oil</b>		<b>Heating Oil</b>		<b>Rbob</b>	
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				
<b>50-day MA</b>	<b>91.18</b>				
<b>200-day MA</b>	<b>95.36</b>				

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