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## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR SEPTEMBER 8, 2011**

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The National Hurricane Center said Tropical Storm Nate continued to strengthen and could become a hurricane on Friday or Saturday. The storm is currently 125 miles west of Campeche, Mexico and is moving towards the southeast. It is expected to make a slow turn toward the north or north-northwest on Friday.

BP Plc was evacuating nonessential personnel from three of its Gulf of Mexico production platforms as Tropical Storm Nate moves through the Bay of Campeche. BP was evacuating personnel from its Mad Dog, Holstein and Atlantis platforms in the Southern Green Canyon field. Meanwhile, Royal Dutch Shell Plc, Chevron Corp and ExxonMobil Corp said they were monitoring the storm.

#### **Market Watch**

The US Labor Department said initial unemployment claims increased by 2,000 to a seasonally adjusted 414,000 in the week ending September 3<sup>rd</sup>. Unemployment claims filed in the previous week were revised to 412,000 from an originally reported 409,000. It reported that the four week moving average of new claims increased by 3,750 to 414,750. The report showed that the number of continuing unemployment benefit claims fell by 30,000 to 3,717,000 in the week ending August 27<sup>th</sup>. The unemployment rate for workers with unemployment insurance in the week ending August 27<sup>th</sup> was unchanged at 3%.

The Commerce Department said the US trade deficit in July posted its largest decline in nearly two and a half years. The US deficit in international trade of goods and services fell by 13.1% to \$44.81 billion from a downwardly revised \$51.57 billion in June. The decline in the trade gap came as oil prices fell from nearly three year highs reached in May. The US bill for crude oil imports in July fell to \$29.31 billion from \$31.45 billion in June. Crude import volumes fell to 281.1 million barrels from 296.7 million barrels. It however reported that the trade deficit with China increased to its highest level since last September despite rising exports, increasing by 1.1% to \$26.96 billion in July.

Federal Reserve Chairman Ben Bernanke said the central bank has the tools to provide more support to the US economy. However he declined to say whether it was prepared to use them in less than two weeks. He said the Federal Reserve expects the recovery to continue at a slower pace than it did in June and for inflation to fall later this year following an increase in the first half of the year. Separately, Federal Reserve Bank of Philadelphia President Charles Plosser said monetary policy has little ability to help the US jobs market in current economic circumstances. He said he sees a high possibility to new Fed action.

Saudi Aramco executives are meeting in Singapore this week to finalize the setting up of a trading unit for refined petroleum products by the end of the year.

Late Wednesday, ConocoPhillips said it restored output at its US Gulf Magnolia platform on Tuesday.

#### **DOE Stocks**

**Crude** – down 3.963 million barrels  
**Distillate** – up 709,000 barrels  
**Gasoline** – up 199,000 barrels  
**Refinery runs** – down 0.2%, at 89%

The Bureau of Ocean Energy Management said about 15% of crude oil production in the US Gulf of Mexico remained shut in the wake of Tropical Storm Lee on Thursday. It said 206,681 bpd or 14.8% of Gulf oil production remained offline, down from 36.9% on Wednesday. It also reported that a total of 362.8 mmcf/d or 6.8% of natural gas production was shut in as of Thursday, down from 18.1% on Wednesday.

The new head of the IEA, Maria van der Hoeven said she did not foresee any more oil stock releases, adding that the release of oil stocks was a success.

**September  
Calendar Averages**  
**CL – \$87.96**  
**HO – \$3.0359**  
**RB – \$2.8696**

According to Oil Movements, OPEC’s oil exports, excluding Angola and Ecuador, are expected to increase by 280,000 bpd to 22.65 million bpd in the four weeks ending September 24<sup>th</sup>.

NATO’s Secretary General Anders Fogh Rasmussen said NATO will continue its mission in Libya as long as any threat remains to the population from forces loyal to Muammar Gaddafi.

Former Libyan leader Muammar Gaddafi sold more than 20% of Libya’s gold reserves or 1.7 billion dinars or \$1.38 billion worth, in the final days of his regime.

Statoil’s head of international development and production said events in Libya appear to be moving quickly towards resolution. The company hopes to resume its operations in the country soon, though it will wait until diplomatic institutions are restored before moving its staff back into the country.

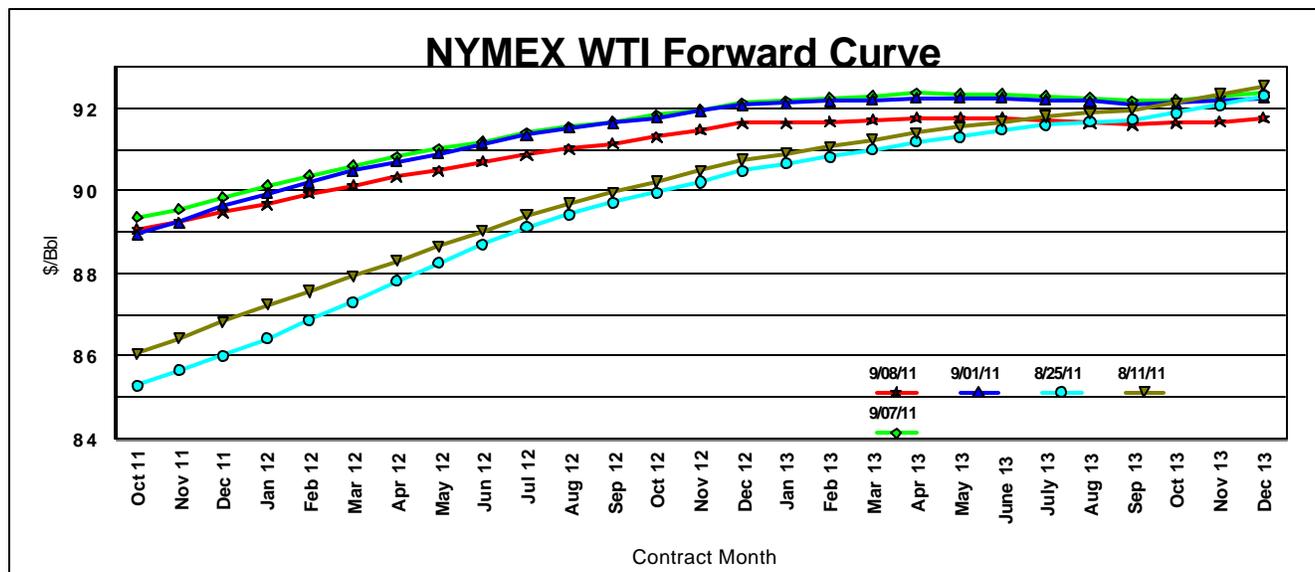
Lambert Energy Advisors Ltd said the need to meet rising oil demand is major challenge for the oil industry that cannot be met without closer cooperation between companies. It said the failure of companies in the industry to work together to ensure that oil supply will continue to meet demand has contributed to volatility in oil prices.

**Refinery News**

ConocoPhillips reported a leak or spill at its 362,000 bpd refinery in Wood River, Illinois on Wednesday.

Valero Energy Corp will increase the amount of Eagle Ford crude two of its Texas refineries use by 30% in the next two quarters. Valero will increase the Eagle Ford crude run at its 100,000 bpd refinery in Three Rivers, Texas to 60,000 bpd by the end of 2011, up from a current level of 45,000 bpd. The company’s Corpus Christi refinery will run 45,000 bpd in the first quarter of 2012. Meanwhile it stated that there was no impact on production from the work on off gas compressors at its 142,000 bpd refinery in Corpus Christi, Texas.

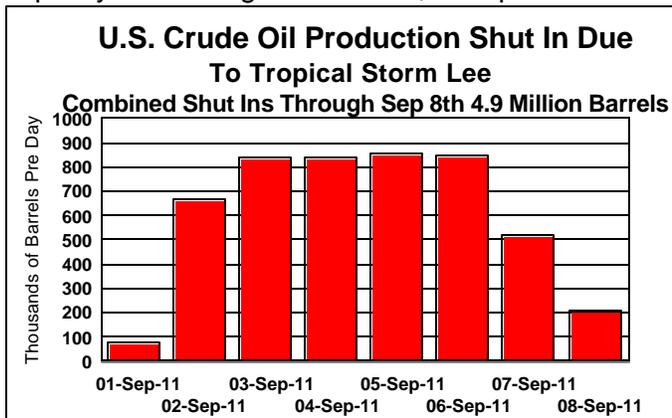
Separately, Valero Energy Corp Chairman and chief executive Bill Kleese did not rule out the possible purchase of Sunoco’s Pennsylvania refineries. He reiterated that the company made the decision last



year to close or sell refineries in Delaware and New Jersey as refining margins along the East Coast declined. He also stated that Valero expects the US tax credit for ethanol to be eliminated. The tax credit, which saves ethanol blenders \$6 billion/year, has been targeted for elimination as the US Congress weighs steps to reduce federal budget deficits.

Tesoro Corp said it will bring in 120 rail cars of Bakken crude oil every other day to its Anacortes, Washington refinery. Oil production at the Bakken Shale in North Dakota is increasing faster than infrastructure can be built to accommodate it. Tesoro said it would build 800 cars to bring 30,000 bpd of Bakken crude to the 120,000 bpd refinery by the end of 2012.

Cenovus Energy Inc said its Wood River, Illinois refinery upgrade project is slightly delayed but is still expected to be completed in the fourth quarter. Cenovus and ConocoPhillips are adding equipment allowing them to process 130,000 bpd more heavy crude at the refinery. It would increase the capacity for those grades to 240,000 bpd.



Irving Oil Ltd has started a 12 week maintenance turnaround at its 300,000 bpd St. John, New Brunswick refinery. The maintenance work is scheduled to be completed by the end of November. It has scheduled turnaround work its butamer and alkylation units. Irving Oil said it would meet customer needs during the turnaround.

PetroChina plans to add 1.1 million tons of biofuels production capacity and import 470,000 tons of those fuels by 2015. It plans to

add 933,000 tons/year of fuel ethanol production capacity and 165,000 tons/year of biodiesel production capacity.

Hindustan Petroleum Corp is in talks with the provincial government of Maharashtra to acquire 3,000 acres of land for an 18 million metric ton refinery. The company currently operates two refineries with a combined capacity of 14.8 million tons.

Formosa Petrochemical Corp resumed gasoil exports a month after it declared force majeure on the exports of all refined oil products. It exported a medium range cargo, usually with a loading capacity of 240,000-300,000 barrels, to a term customer in early September. It plans to resume exports of gasoline and jet fuel in late September or early October.

Singapore's International Enterprise reported that the country's residual fuel stocks fell by 535,000 barrels to 21.005 million barrels in the week ending September 7<sup>th</sup>. It also reported that Singapore's light distillate stocks increased by 377,000 barrels to 9.157 million barrels while its middle distillate stocks fell by 1.276 million barrels to 11.981 million barrels on the week.

Gasoline stocks held in independent storage in the Amsterdam-Rotterdam-Antwerp area in the week ending September 8<sup>th</sup> fell to 535,000 tons, its lowest level since December 2010. Gasoline stocks fell by 6.3% on the week and by 43.51% on the year. Gasoil stocks increased by 0.3% on the week but fell by 14.68% on the year to 2.313 million tons while fuel oil stocks fell by 7.21% on the week but increased by 11.98% on the year to 888,000 tons. Naphtha stocks increased by 62.5% on the week and by 25% on the year to 65,000 tons while jet fuel stocks increased by 3.8% on the week but fell by 24.31% on the year to 573,000 tons.

Shipping traffic at the Rotterdam port resumed on Thursday following a partial halt due to a gas leak at a liquefied natural gas terminal.

### **Production News**

A second cargo of North Sea Forties crude for September loading has been cancelled. Cargo F0924, which was due to load on September 29-October 1, has been dropped. One other cargo had already been cancelled and 15 have been delayed due to North Sea oilfields maintenance.

Canadian Oil Sands said a shutdown of a coker is expected to cut cumulative syncrude production by 4 million to 5 million barrels.

Pemex reported that Mexico's oil production in August totaled 2.555 million bpd.

UK oil production fell below 1 million bpd this summer as maintenance exacerbated a decline in output from depleted North Sea oilfields. The British sector of the North Sea produced 984,000 bpd of oil in June, down from just over 1 million bpd in May and a peak of more than 2.7 million bpd in 1999.

Baker Hughes Inc reported that the international rig count for August 2011 was 1,183, up 33 from the 1,150 rigs in July. The US rig count for August was 1,957. It reported that the worldwide rig count for August 2011 was 3,613, up 216 on the month.

Statoil is expected to make a final investment decision on its Mariner heavy oilfield project in the UK in late 2012. The Mariner field is expected to be on stream in late 2016.

Iraq prequalified Glencore and Vitol to bid for billions of barrels of oil exploration rights next January. The Iraqi Oil Ministry confirmed that the two companies were among six new companies pre-qualified bidders for 12 exploration blocs which expected to add 10 billion barrels to Iraqi reserves.

Iraq's State Oil Marketing Organization raised the official selling prices of its Basra Light crude for October to all buyers. The price of its Basra Light crude bound for Europe in October was increased by \$1.05/barrel to \$3.00/barrel below Dated Brent while the price of Basra Light crude bound for the US was increased by 15 cents/barrel to \$1.70/barrel below the Argus sour Crude Index. The price of Basra Light crude bound for Asia was increased by \$1.05/barrel to 5 cents/barrel above the Oman/Dubai average. The price of its Kirkuk crude bound for Europe was increased by \$1.30/barrel to \$1.45/barrel below Dated Brent while the price of Kirkuk crude bound for the US was cut by 10 cents/barrel to 10 cents/barrel over ASCI.

### **Market Commentary**

Crude oil traded disproportionately, while traders tried to decide which fundamentals would have the greatest impact on prices. Would it be the 3.9 million barrel decrease in crude oil inventories, fears of damage in the Gulf by Tropical Storm Nate or global economic woes? Crude oil has been keeping pace with the S&P, which was under pressure for most of the session. Technically speaking, the October crude oil contract failed to gain momentum once over the psychological mark of \$90.00. As long as crude oil remains below this level, shorts will hold on and those wanting to get long will refrain from doing so. We would stick with the plan of selling failed attempts over \$90.00, waiting for a solid move above it.

Crude oil: Oct 11 256,780 -12,317 Nov 11 202,379 8,023 Dec 11 200,601 -7,556 Totals 1,520,222 -3,685 Heating oil: Oct 11 89,039 -4,885 Nov 11 49,038 +3,650 Dec 11 52,407 -1,525 Totals 312,039 -714 Rbob: Oct 11 83,391 2,762 Nov 11 46,631 +1,706 Dec 11 46,568 +1,096 Totals 270,410 +8,671

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
7552	9000	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>90.99</b>				
<b>200-day MA</b>	<b>95.43</b>				

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