



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR SEPTEMBER 9, 2011**

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The US National Hurricane Center said Tropical Storm Nate was drifting northwestward. It was forecast to strengthen into a hurricane by Saturday as it moves northwestward for the next day or so. It is expected to make landfall on Mexico's eastern shores late Sunday or early Monday.

BP Plc and Apache Corp remain in a wait and see stance after evacuating personnel from offshore platforms in the Gulf of Mexico as a precaution against Tropical Storm Nate. On Thursday, BP evacuated non-essential personnel from its Mad Dog, Holstein and Atlantis offshore oil platforms. Apache evacuated non-essential personnel from its western

Gulf platforms but said production was not curtailed. Anadarko Petroleum Corp, ExxonMobil Corp, Marathon Oil Corp and Royal Dutch Shell have been monitoring the storm but have not announced any evacuations. Royal Dutch Shell said it does not expect to evacuate workers from offshore production platforms. Separately, Royal Dutch Shell Plc said all production in the Gulf of Mexico shut due to Tropical Storm Lee was restored by Friday. It said all workers removed from offshore platforms have been returned. Shipments of Mexico's oil were affected. Mexico's Cayo Arcas and Dos Bocas oil ports remained closed for safety reasons.

The US Bureau of Ocean Energy Management, Regulation and Enforcement said oil and natural gas production in the US Gulf of Mexico continues to normalize. As of Friday, about 94% of oil production

#### **Market Watch**

The US Commerce Department said US wholesalers stockpiled inventories in July as sales were flat. Wholesale inventories increased 0.8% to a seasonally adjusted \$462.41 billion, after increasing 0.6% in June. However sales of US wholesalers were little changed at a seasonally adjusted \$396.01 billion, following a 0.6% increase in June.

The Institute for Supply Management's index for manufacturing inventories increased to 52.3 in August from 49.3 in July.

The Economic Cycle Research Institute said its Weekly Leading Index increased to 123 in the week ending September 2<sup>nd</sup> from 122.4 the previous week, which was originally reported as 122.5. The index's annualized growth rate fell to its lowest level since late October 2010, falling to minus 6.2% from minus 4.4% a week earlier.

JP Morgan lowered its world oil demand outlook for this year and next citing its recent downward revision of global economic growth but has kept its oil price forecast unchanged. It lowered its 2011 oil demand by 250,000 bpd to 88.9 million bpd. Oil demand in 2012 was cut by 630,000 bpd to 90.3 million bpd as Libya resumes its crude exports and Iraq's production increases. It however said that increases in Japan's oil use for power and potential Chinese demand in 2012 for up to 380,000 bpd to fill strategic petroleum stocks could support demand, despite the economic outlook.

China's National Bureau of Statistics reported that the country's consumer price index increased by 6.2% in August from a year earlier, falling from July's 6.5% on year increase. August's CPI was up 0.3% compared with the previous month following an increase of 0.5% in July.

Royal Dutch Shell Plc chief executive Peter Voser said fundamentals of the oil and gas business remain strong despite recent price instability due to economic turmoil. It said that in the long term, demand outpaces supply of oil and gas, providing a strong case for investment in the sector. He said in the short term, it's difficult to predict prices but he said US fuel prices should be flat or slightly down in coming weeks or months due to sluggish domestic demand.

Greece's Finance Minister said rumors that Athens would default over the weekend was market speculation designed to hurt the euro.

**September  
Calendar Averages**  
**CL – \$87.84**  
**HO – \$3.0275**  
**RB – \$2.8532**

and 96% of natural gas production in the Gulf was online. It is up from 85% and 93%, respectively on Thursday.

Sources stated that about 2 million barrels of very light crude has been offered from Libya via a tender, making it the largest volume to come to market since the unrest started in February. The source said the oil would come from storage tanks rather than new output from fields. The oil is expected to load in the western border of Libya.

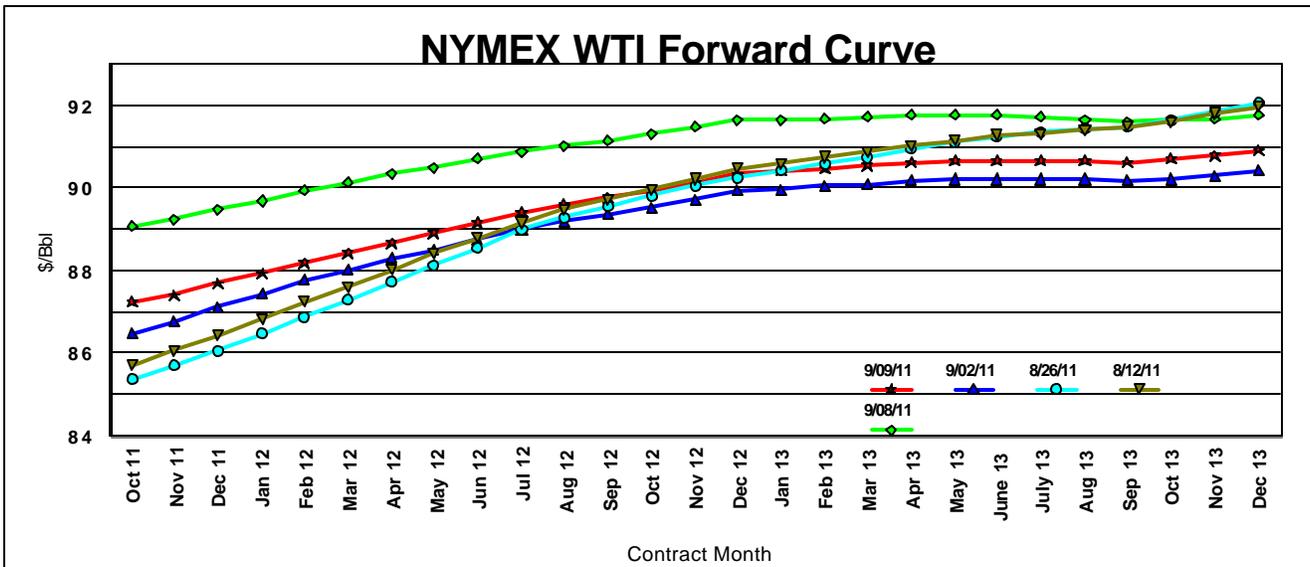
Iraq expects to resume talks with oil majors this month on an oilfield water injection plan after disagreements over costs suspended the projects for months. ExxonMobil was picked on behalf of foreign oil firms to lead the water injection project to increase crude production rates from Iraq's southern oilfields.

The European Union is closing in on a new round of sanctions on Syria. Diplomats said the sanctions would include an investment ban preventing European energy companies signing new contracts with their Syrian counterparts. The diplomats said the EU's aim is to put the sanctions in place before the UN General Assembly meeting on September 22-23.

**Refinery News**

According to the Final Environmental Impact Statement, the Keystone XL pipeline will be constructed and operated at a safety level beyond that of any existing crude oil pipeline in the US.

Tesoro Corp said a power outage caused flaring at its 92,000 bpd refinery in Wilmington, California. It said power was restored to the refinery following the power outage on Thursday.



Motiva Enterprises reported a compressor controller malfunctioned on Thursday that led to sulfur dioxide emissions at its 235,000 bpd Convent, Louisiana refinery.

Production at Valero Energy Corp's 80,887 bpd Wilmington, California refinery was not impacted by a widespread power outage in southern California on Thursday. A blackout caused by human failure left nearly 5 million people without power in parts of California, Arizona and Mexico on Thursday.

China's National Bureau of Statistics said China processed 36.78 million metric tons or 8.66 million bpd of crude in August, up 4.5% on the year. In the first eight months, crude runs totaled 297.44 million tons, up 6.6% on the year.

China's Sinopec signed a preliminary agreement with the Hunan government on upgrading two refineries, building a natural gas pipeline and speeding up shale gas exploration. Over the next five years, Sinopec will more than double its refining capacity at its Changling complex to 11.5 million metric tons/year or 230,000 bpd from 5 million tons/year. It is also expected to increase capacity at its Baling refinery and petrochemical plant to 3.5 million tons/year or about 70,000 bpd.

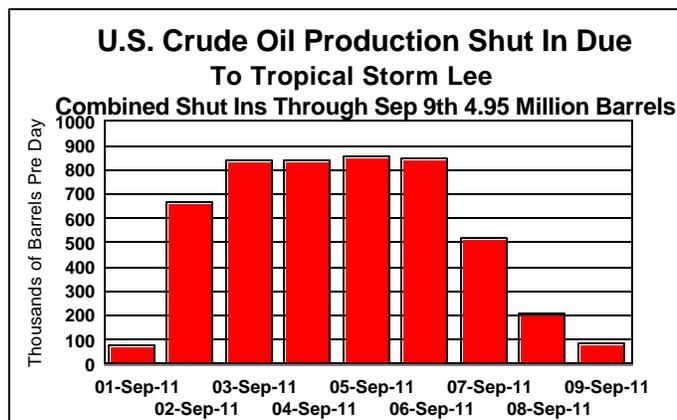
PetroChina has made a rare purchase of two diesel cargoes for September to replenish declining domestic stocks after heavy regular maintenance and refinery accidents cut production.

Libya is offering an 80,000 ton cargo of crude oil to be shipped out from the western port of Mellitah in September. The oil cargo, equivalent to about 600,000 barrels, would load from September 15-17.

Meanwhile, Austria's OMV has organized an initial delivery of 30,000 tons of diesel fuel to Libya to support restoration of water and power supplies as it starts to rebuild ties with the country that used to provide a tenth of its oil.

### **Production News**

The North Sea Brent crude oil production stream is scheduled to load about 155,000 bpd in October, up from 140,000 bpd originally scheduled to load in September. Meanwhile, the North Sea Forties crude oil stream is scheduled to load 445,000 bpd in October, down from 480,000 bpd originally planned in September.



EOG Resources Inc said a shale formation in the US Permian Basin will likely be a significant producer of oil. The Wolfcamp formation spans parts of West Texas and southern New Mexico and is estimated to have gross oil reserves of 2.1 billion barrels of oil equivalent however shale oil recovery rates are typically low.

Royal Dutch Shell Plc confirmed it made progress in starting up three oil and gas projects in 2011, which at peak production would add about 400,000 barrels of oil

equivalent.

The revised loading schedule of Nigerian Bonny Light crude showed exports in October would total about 132,000 bpd. It is down from the originally scheduled volume of about 216,000 bpd. Bonny Light remains under force majeure until the end of October due to repeated pipeline attacks.

Kuwait Petroleum Corp posted its official crude oil selling price at 55 cents/barrel below the average of Oman/Dubai assessments for October term supply to Asia. It is up \$1/barrel from the previous month.

OPEC's news agency reported that OPEC's basket of crudes increased further to \$112.15/barrel on Thursday from \$111.33/barrel on Wednesday.

### **Market Commentary**

The price of a barrel of crude oil tumbled as concerns about the economy escalated, bringing the October contract to a low of \$85.64 on the day. Both gasoline and heating oil also succumbed to selling pressure. President Obama's address to congress did little to quell the spreading economic angst. Tropical Storm Nate is now forecast to miss refineries in the Gulf region, removing the one supportive factor prodding the bulls. Taking into account all of the aforementioned, combined with a technically weak market scenario, we expect that prices will begin next week on the downside. The \$90.00 level is still the target that prices need to work above for a shift in market direction. Slow stochastics have crossed to the down side in neutral territory. The October contract bounced off of the ascending trendline, making this our objective on the downside. Coming into next week this trendline will be set at \$86.09.

The latest Commitment of Traders report showed that non-commercials continued to increase their net long position by 12,454 lots to 165,142 lots in the week ending September 6<sup>th</sup>. The combined futures and options report showed the funds increased their net long position by 10,809 lots to 211,418 lots on the week. The disaggregated futures and options report showed that managed money funds cut their net long position by 5,780 contracts to 155,837 contracts in the week ending September 6<sup>th</sup>.

Crude oil: Oct 11 232,859 -23,921 Nov 11 215,670 +13,291 Dec 11 201,469 +868 Totals 1,502,355 -17,867 Heating oil: Oct 11 86,653 -2,386 Nov 11 52,700 +3,662 Dec 11 52,964 +557 Totals 314,106 +2,067 Rbob: Oct 11 77,191 -6,200 Nov 11 52,238 +5,607 Dec 11 45,277 +1,291 Totals 270,624 +214

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>90.83</b>				
<b>200-day MA</b>	<b>95.44</b>				

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