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## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR MAY 25, 2011**

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Iran's OPEC  
governor  
Mohammad Ali  
Khatibi said the  
group is ready to  
make up for gaps in  
the markets. He  
said OPEC is  
attempting to  
remedy deficiencies  
in crude oil supply  
and create balance  
in the market and  
added that in the  
future OPEC would  
continue to fulfill its  
duty to balance the  
market.

Venezuelan officials  
condemned the US  
government's  
sanctions on  
PDVSA, calling the  
move an imperialist  
act and a violation  
of the country's  
sovereignty but  
stopped short of  
denying allegations  
that the country sent  
petroleum products  
to Iran in violation of  
an international  
agreement.  
Venezuela's

#### **Market Watch**

According to a Reuters survey, Brent crude oil is forecast to average \$108.80/barrel in 2011, \$107.20/barrel in 2012, and \$110.70/barrel in 2013, relatively unchanged from the previous month's forecast.

The US Commerce Department said orders for durable goods fell in April due to car production disruptions following the earthquake in Japan and declining demand for airplanes. Manufacturers' orders for durable goods fell 3.6% to a seasonally adjusted \$189.89 billion. It was the largest drop since October 2010. This followed an increase of 4.4% in March.

The Organization for Economic Cooperation and Development said the Federal Reserve should start increasing interest rates in the second half of the year to ensure a smooth transition in the US economy. It said gradually tightening credit soon after the Fed completes its government bond purchases in June would reduce the need for steeper increases in interest rates later. It said increasing the interest rate to 1% in the second half of the year would still leave significant monetary stimulus to help bring down a US employment rate which the OECD sees remaining high. In a report, the OECD predicted the US economy would expand by 2.6% this year. The OECD also said the European Central Bank should pause its monetary tightening cycle. It expects the ECB's interest rates to reach 2.25% by the end of 2012. The OECD cut its forecast for Japan's GDP for a second time this year due to the earthquake in March and called on the Bank of Japan to maintain its ultra-easy policy as deflationary pressure is likely to persist. Japan's economy is expected to contract 0.9% this year.

The American Trucking Associations' advance seasonally adjusted For-Hire Truck Tonnage Index fell by 0.7% in April compared with levels reported in March. It revised the index's increase in March to 1.9% from the 1.7% growth it reported a month ago.

The CFTC is suing two traders of Oklahoma's Parnon Energy and Arcadia Energy, accusing them of oil price manipulation and allegedly making \$50 million by squeezing markets in 2008. It said the two traders amassed large physical positions at Cushing, Oklahoma to create the impression of tight supplies that would increase oil prices. The traders later dumped those barrels back onto the market, causing prices to crash and increasing profits from short positions they had accrued in futures markets. Arcadia, the Swiss commodity trading firm said the charges are completely without merit and said it retained independent experts to examine its trades.

The Greek government attempted to resolve a standoff with its opposition over austerity on Wednesday, with one official warning the only alternative to more cuts was leaving the euro and bringing back the drachma. The government denied reports it was poised to call a referendum on Prime Minister George Papandreaou's new savings plan, which foresees up to 11.5 billion euros in state asset sales by the end of next year. This underscored increasing political hurdles to an orderly resolution of the debt crisis that has plagued the euro zone for the past 18 months. It has also raised the risks that EU leaders could be forced to explore new, potentially more radical policy options for dealing with Greece's massive debt.

### DOE Stocks

**Crude** – up 616,000 barrels  
**Distillate** – down 2.04 million barrels  
**Gasoline** – up 3.794 million barrels  
**Refinery runs** – up 3.1%, at 86.3%

Foreign Minister Nicolas Maduro and Oil Minister Rafael Ramirez said they would evaluate how to adequately respond to the US penalties in coming days but did not offer any specific measures.

US President Barack Obama admitted the inherent limitations of the NATO air operation in Libya but predicted that a slow, steady process would eventually force Muammar Gaddafi from power. Both US President Barack Obama and UK Prime Minister David Cameron urged patience and persistence in the operation.

Separately, a NATO official said Muammar Gaddafi's regime is on the run as NATO jets bombed Libya's capital Tripoli. The senior NATO military official said the Western alliance is shifting into high gear in Libya in a bid to deliver a decisive blow to Gaddafi's government. The official said the allies hoped Gaddafi would fall by late June or early July.

### Refinery News

Kinder Morgan Energy Partners LP said the Trans Mountain Pipeline was apportioned by 37% for June. Shippers would only be able to deliver 63% of nominated volumes.

Enbridge Inc said the Ozark oil pipeline was operating normally after power was restored to a pump station following storms at Joplin, Missouri. The line is capable of carrying about 217,000 bpd of crude from Cushing, Oklahoma to Wood River, Illinois.

Valero Energy Corp is restarting a wet gas compressor at its 287,000 bpd refinery in Port Arthur, Texas. The compressor tripped early Wednesday morning. It said it did not expect any material impact on production. Valero also reported planned maintenance on a delayed coker unit at its 142,000 bpd Corpus Christi, Texas refinery. The maintenance is scheduled to last from May 25-26. It does not expect any impact to production in the East Plant of its refinery. It also reported unplanned maintenance in a gas oil treating unit in Complex 7 at the east plant of its refinery.

ExxonMobil Corp reported emissions at its 238,600 bpd Joliet, Illinois refinery. It said a compressor trip over the weekend led to flaring at the refinery.

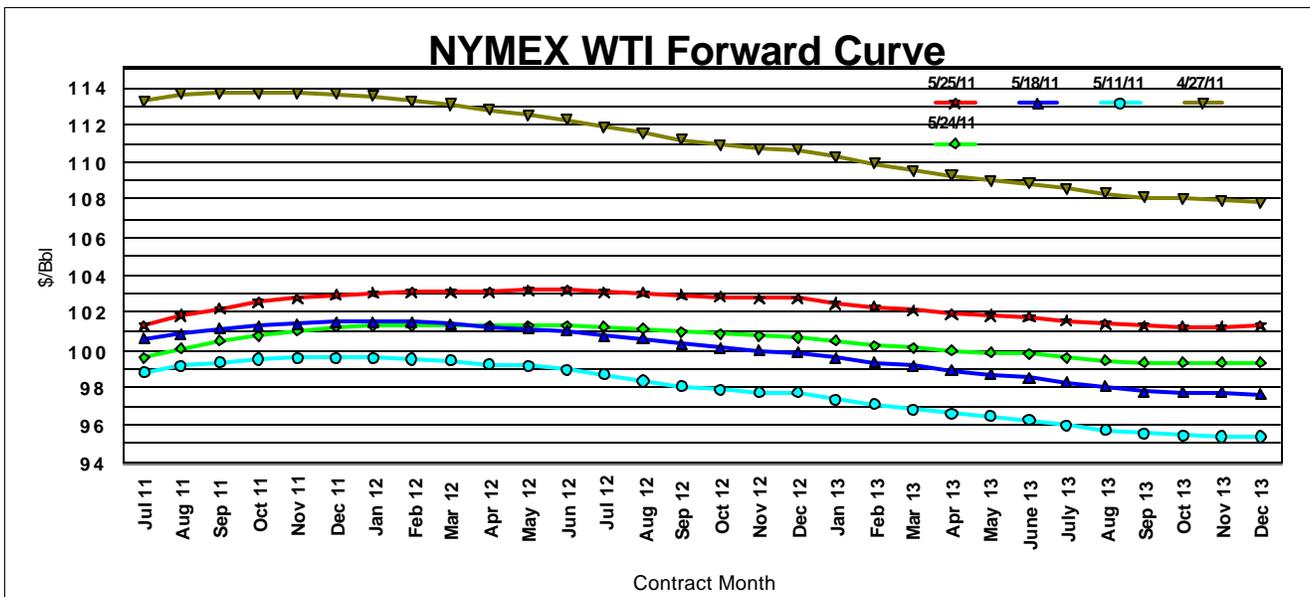
Petrobras America restarted a fluid catalytic cracking unit at its 100,000 bpd refinery in Pasadena, Texas after completing maintenance work. The unit was shut in April for a maintenance turnaround.

Tesoro Corp bought a cargo of crude oil from Libya's eastern rebel movement to run its 94,000 bpd refinery in Hawaii. The cargo of crude, estimated at about 1 million barrels was originally bought from Libyan rebels in early April.

PDVSA said the Paraguana refinery complex restored operations following a power outage earlier this month. The May 12<sup>th</sup> power failure forced a complete shutdown of the 305,000 bpd Cardon refinery and a partial shutdown of the 640,000 bpd Amuay refinery. PDVSA said production level remained above 750,000 bpd over the last four days. PDVSA also stated that a fluid catalytic cracking unit at the Cardon refinery is operating normally after it was shut for 12 hours following a problem on Monday.

Total's 360,000 bpd refinery in Antwerp did not restart as planned on May 15<sup>th</sup>. The refinery's crude distillation unit was taken out of service for six weeks of maintenance in April. The reason for the delay was unknown. The extended outage has supported both gasoline and diesel markets, as traders have been forced to seek additional volumes on the over-the-counter market.

**May  
Calendar Averages**  
**CL – \$101.39**  
**HO – \$2.9562**  
**RB – \$3.0955**



Engen Petroleum is planning to shut down its 125,000 bpd refinery in South Africa for six weeks starting in early October to conduct routine maintenance repairs.

Russia's Energy Ministry reported that the country's oil refinery runs in April fell 1.2% on the month due to heavy maintenance at several refineries. However refinery runs were up 3.6% on the year. Russian refineries processed 4.94 million bpd of crude in April, down from 5 million bpd in March. Russia's gasoline production in April fell by 10.1% on the month and by 4% on the year to 87,580 tons/day. Gasoil production fell by 5.4% on the month but increased by 2.2% on the year to 186,120 tons/day and fuel oil production fell by 3.7% on the month but increased by 9.3% on the year to 194,530 tons/day.

Japan's Showa Shell Sekiyu KK said its refineries plan to refine 5.1 million kiloliters or 526,000 bpd of crude in May-June, unchanged on the year.

Japan's Ministry of Finance reported that the country's imports of crude oil and condensate in April fell 14% on the year to 17 million kiloliters or 3.56 million bpd. However Japan's gasoline and liquefied natural gas imports increased following the earthquake and tsunami which impacted refineries and shut down coal fired power plants in March. Imports of gasoline and LNG increased 15.4% and 8.8%, respectively.

The Petroleum Association of Japan reported that crude oil inventories in the week ending May 21<sup>st</sup> fell by 1.34 million barrels on the week but increased by 10.75 million barrels to 104.29 million barrels. It reported that Japan's gasoline stocks fell by 570,000 barrels on the week and by 2.4 million barrels on the year to 13.85 million barrels while kerosene stocks increased by 420,000 barrels on the week and by 3.75 million barrels on the year to 14.64 million barrels. Japan's total oil sales increased by 6.3% on the week and by 6.2% on the year to 2.53 million bpd. The PAJ also reported that Japan's crude runs totaled 3.21 million kl and refineries were operating at 72.1% in the week ending May 21<sup>st</sup>, down from 75.1% the previous week.

India's Petroleum Planning and Analysis Cell reported that the country's crude oil imports in April increased by 6% on the year to 15.84 million metric tons or 3.87 million bpd from 14.96 million tons or 3.66 million bpd last year. It reported that refinery runs at India's 20 refineries during the month increased 4% to 16.71 million tons or 4.08 million bpd. Oil product imports in India fell 8% to 957,000 tons from 1.04 million tons a year earlier while oil product exports increased by 10% to 4.46 million

tons from 4.04 million tons last year. India's local oil product sales increased an annual 4.2% in April to 12.63 million tons in April.

### **Production News**

Oil companies began restarting operations in northern Alberta on Wednesday as the threat of wildfires eased. More than 150,000 bpd of heavy crude oil production was shut down for about a week, most of which was shut in due to a power outage that shut a segment of the Rainbow pipeline. Plains All American Pipeline LP said it restarted the southern leg of its 187,000 bpd Rainbow pipeline. Cenovus Energy Inc plans to restart facilities at the 22,000 bpd Pelican Lake field on Thursday. It is expected to take four to five days to reach full output. Separately, Canadian Natural Resources Ltd said it is in the process of restarting its 40,000 bpd Pelican Lake oil field. The field was shut last week due to the shut in of the Rainbow Pipeline.

Nigeria's presidential adviser on energy said the country is producing about 2.6 million bpd, up from 2.2 million bpd in March.

Norway's Statoil is producing about 35,000 bpd of heavy oil at its Peregrino field in Brazil. Output is expected to reach 100,000 bpd in the first quarter of 2012.

A Total SA official said oil and gas demand should continue increasing in coming years and new production capacities must be developed. He estimated that about 40 million bpd of new production must be developed by 2020 to address the increased demand. Hydrocarbon demand is expected to increase by 95 million bpd by 2020 while unused production capacities should fall from a 6% rate in 2010 to 3% by 2015.

Vietnam produced an estimated 1.18 million tons or 279,000 bpd of crude in May, down 6.3% on the year. It crude exports in the first five months of the year fell by 2.8% on the year to 3.45 million tons or 167,500 bpd.

China's National Development and Reform Commission is expected to increase ex-factory jet kerosene prices by CNY800/metric ton on Wednesday. It would represent an 11.7% increase over the current CNY6,840/ton benchmark price.

Russia's spot oil prices for domestic delivery in June fell by about 23% to 9,050-9,250 roubles or \$318-\$325/ton in West Siberia compared to 11,750-11,950 roubles/ton in May. The prices fell as export duties are expected to increase.

Russia's Rosneft and China are set to discuss pricing of Russian oil deliveries in an economic conference on June 16-18. China called off talks with Russia scheduled for May 30-31 to resolve disputes over the price of Russian oil supplies via the pipeline monopoly Transneft. Meanwhile, China's Foreign Ministry said that energy cooperation with Russia was proceeding smoothly and said there was no dispute over the East Siberia-Pacific Ocean crude oil pipeline.

### **Market Commentary**

Goldman's weekend report, suggesting that oil prices could be headed higher, continues to boost this market, pushing the July crude oil contract above \$101/barrel. Adding to today's rally was the 3.04 million barrel decrease in distillate stocks and a 10 percent increase in demand for this product. Distillate stocks now stand at their lowest level in two-years. The depletion in distillate inventories overshadowed the 3.79 million barrel increase in gasoline supplies. This increase in gasoline stocks can be attributed to refiners coming back on line after seasonal maintenance, and looking to take advantage of the recent slide in crude oil prices. Despite today's higher prices, we would temper optimism that this run-up will continue, as the confidence level remains delicate. Looming in the

background is the European debt crisis and consumer confidence in the U.S. Those looking to buy and hold this market should do so under extreme caution due to the sensitivity of the economic factor.

Crude oil: July 11 397,628 -13,983 Aug 11 93,794 +3,442 Sept 11 96,351 -517 Totals 1,522,076 -11,934 Heating oil: June 11 33,677 -8,750 July 11 95,580 +3,374 Aug 11 35,745 +147 Totals 310,794 -5,217 Rbob: June11 32,662 -4,576 July 11 84,366 +2,403 Aug 11 27,071 +626 Totals 268,867 -2,151

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
9620	10300		31325		
9535	10845	27695	32777		33369
9284	11120	26680	33370	26965	35915
8700	11483	27375	33510	26300	36310
8625	11563	23685		25683	
8500	11703	22960		25145	
8385	12126			24240	
	14933			23631	
				23414	

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