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ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JUNE 1, 2011

Algeria's Energy Minister Youcef Yousfi said he saw no need for OPEC to change its oil production quotas when its ministers meet in Vienna on June 8th.

Iran's OPEC Governor Mohammad Ali Khatibi said preserving OPEC's production ceiling was the only way to control the oil market. He added that the oil markets are well supplied.

Libya's Oil Minister Shokri Ghanem defected from the government of Muammar Gaddafi. He said he left the Gaddafi regime because the continuing killing in Libya has

Market Watch

ADP reported that private businesses barely added jobs in May as large companies cut workers. Private sector jobs in the US increased by 38,000 in May compared with market expectations of an increase of 190,000. The April data was revised to show an increase of 177,000 compared with the previously reported 179,000. The ADP report showed that large businesses with 500 employees or more cut 19,000 employees and medium size businesses added 30,000 workers in May and small businesses the employ fewer than 50 workers added 27,000 workers.

According to global outplacement firm Challenger, Gray & Christmas Inc, the number of planned job cuts announced by US based employer increased modestly in May. The number stood at 37,135, up 1.8% from April's total of 36,490.

The Institute for Supply Management said its index of national factory activity fell to 53.5 in May from 60.4 in April. New orders fell to 51 from 61.7 in April.

The JPMorgan Global Manufacturing PMI fell to 52.9 in May from 55 in April. It fell to the lowest level since last September. The new orders component of the global survey fell to 51.8 in May from 53.8 in April.

The Markit Eurozone Manufacturing Purchasing Managers' Index fell to 54.6 in May from 58 in April, revised slightly lower from a preliminary reading of 54.8. The latest survey showed a renewed contraction among Spain's manufacturers while Italian and Irish factories saw a marked slowdown in growth. The manufacturing PMI's output index fell to 55.2 in May from 60.2 in April.

The UK's Markit/CIPS manufacturing PMI headline index in May fell to 52.1 from a downwardly revised 54.4 in April. British manufacturing activity grew at its slowest pace in 20 months in May.

China's factories expanded in May at their lowest pace in at least nine months. The China Federation of Logistics and Purchasing said the official Purchasing Managers Index fell to 52 in May from 52.9 in April. Meanwhile, HSBC's China Purchasing Managers' Index fell to a 10 month low in May of 51.6 from 51.8. HSBC's Markit Purchasing Managers' Index for India fell to 57.5 in May from 58 in April as the pace of new orders slowed.

India's infrastructure sector output grew 5.2% in April on the year. However it was down from an annual growth of 7.4% in March.

Ireland's Transport Secretary said Ireland may need a second bailout from the IMF and the European Union. However the country's Finance Minister denied those comments and said that there absolutely would not be a second bailout next year. He said there was a fund gap from 2013. The latest statistics in the Irish economic adjustment program suggests that Ireland needs to find 3.4 billion euros in 2012 and 14 billion euros in 2013.

Forecasters at Colorado State University said the Atlantic hurricane season will see above average activity, with 16 named storms and nine hurricanes, five of which would have sustained winds of 111 mph or more. It said there was a 72% probability of at least a major hurricane making landfall along the US coastline. There is a 48% chance of a major hurricane making landfall on the East Coast compared with a long term 31% chance. The Gulf Coast oil region has a 47% probability of a major hurricane making landfall. The National Oceanic and Atmospheric Administration also forecast above normal activity, with 12 to 18 storms, six to 10 hurricanes and three to six major hurricanes.

Water stocks in China's major reservoirs are still declining in early June, suggesting tight power supply in hydropower rich regions may not ease soon if thermal power generation fails to offset the decline.

API Stocks

Crude – up 3.465 million barrels
Distillate – down 1.405 million barrels
Gasoline – up 1.492 million barrels
Refinery runs – up 0.5%, at 84%

become unbearable. He said the western part of Libya is suffering serious shortages of fuel and even the armed forces have been unable to produce enough fuel to meet their needs.

PFC Energy said OPEC is unlikely to take concerted action when it meets next week if Brent prices remain around \$115/barrel and WTI remains around \$100/barrel. It however stated that production needs to increase by 500,000 bpd to maintain inventory levels.

According to a SpendingPulse report released by MasterCard Advisors LLC, US weekly gasoline demand increased by 3.1% to a five month high of 9.464 million bpd in the week ending May 27th. In the latest four weeks, gasoline demand was down 2% on the year. It reported that the US average retail price of gasoline fell by 10 cents to \$3.82/gallon on the week.

Iran's parliament said President Mahmoud Ahmadinejad acted illegally by declaring himself caretaker oil minister and referred the case to the judiciary. The legislature voted to approve a report by its energy committee which found Ahmadinejad's move an obvious violation of law.

NATO allies agreed to extend its military campaign in Libya for another 90 days until late September. The extension officially starts from June 27, taking the mission through until the end of September.

Explosions were reported in a northern area of Yemen's capital on Wednesday as a tribal group supporting the ouster of President Ali Abdullah Saleh fought his security forces. Global powers have been urging the President to sign a Gulf-led deal to end his rule and stem spreading chaos in Yemen.

HSBC increased its 2011 Brent oil price forecast, citing instability in the Middle East. It raised its 2011 Brent crude price estimate to \$110/barrel from the previous estimate of \$82/barrel. Its outlook for Brent prices in 2012 was revised to \$90/barrel, up from its previous forecast of \$83/barrel. It said increased involvement by commodity funds could be limiting the effect Saudi Arabia can exercise on oil price through the use of its spare capacity.

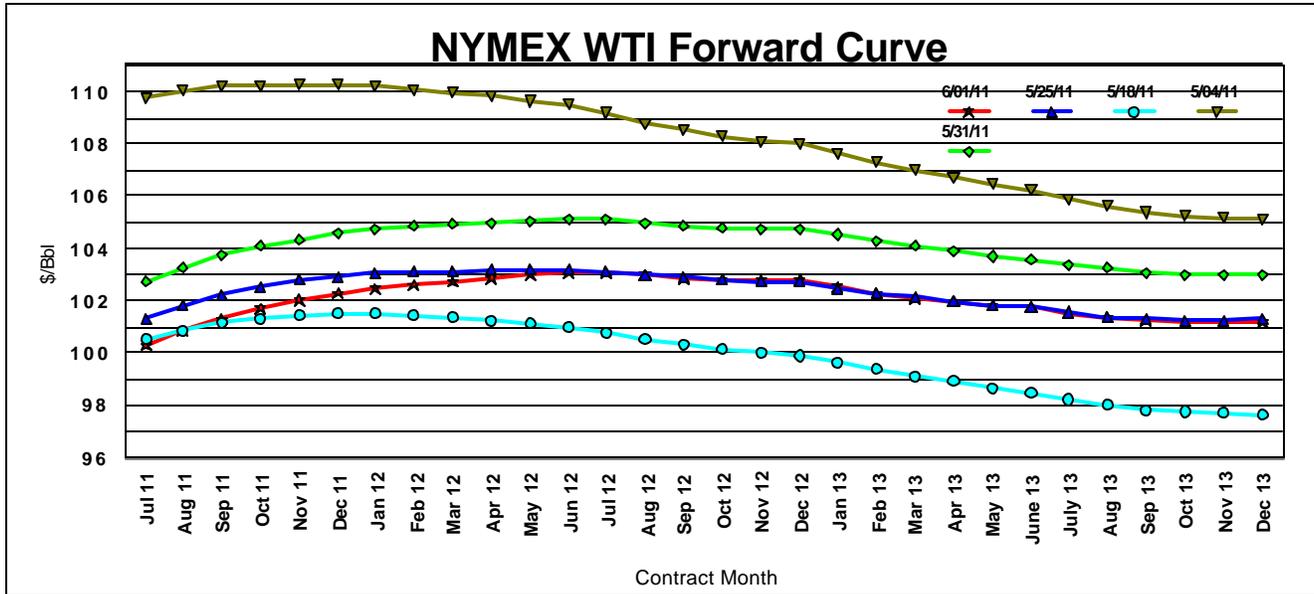
Refinery News

TransCanada Corp reiterated it expects its 591,000 bpd Keystone Oil Pipeline to return to service in the coming days after it was shut due to a leak. The pipeline was pumping about 480,000 bpd of crude before a fitting failed at the Severance pumping station in Kansas on Sunday.

Separately, US lawmakers want the State Department to delay its decision making process on whether to approve a \$7 billion pipeline that would deliver crude from Canada's oil sands to Texas until environmental concerns are addressed. The Keystone XL project would add a line from Alberta, Canada to Nebraska to an existing system and add an extension from Oklahoma to Texas, to take Canadian crude oil to the Gulf Coast refining hub.

Enbridge Inc restarted most of the oil pipelines that were shutdown or slowed due to power outages caused by weekend storms in the US Upper Midwest. Line 6B, a 290,000 bpd that runs to Sarnia, Ontario from Griffith, Indiana, resumed operations with power restored to the three pump stations that were knocked off line. Lines 6A, 4 and 67, which carry crude oil to Griffith from Alberta via Superior, Wisconsin, were returned to normal operating rates on Tuesday. Line 17, which extends to Toledo, Ohio from Line 6B at Stockbridge, Michigan, is expected to resume operations later on Wednesday following final inspection.

**June
Calendar Averages**
CL – \$100.29
HO – \$3.0087
RB – \$2.9773



Valero Energy Corp reported a problem at a gasoil hydrotreater unit at its 80,887 bpd Wilmington, California refinery led to flaring. There was no material impact to production.

BP Plc reported its 265,000 bpd oil refinery in Carson, California would begin planned flaring activity later this week.

Shell Oil Co reported the startup of hydrotreater 2 at its 327,000 bpd Deer Park, Texas refinery following the loss of steam.

Spain's Repsol said an outage in the main substation at its 220,000 bpd Bilbao refinery halted several unspecified units in the conversion area.

India's refiners processed 14.01 million metric tons or 3.42 million bpd in April, down 7% from 15 million tons in March.

Gasoline inventories held in independent storage in the Amsterdam-Rotterdam-Antwerp area in the week ending June 1st increased by 0.85% on the week but fell by 39.24% on the year to 590,000 tons. Gas oil stocks fell by 0.35% on the week but increased by 19.3% on the year to 2.85 million tons and fuel oil stocks increased by 0.77% on the week and by 7.25% on the year to 784,000 tons. Naphtha stocks increased by 95.83% on the week and by 70.91% on the year to 94,000 tons while jet fuel stocks increased by 5.51% on the week but fell by 37.12% on the year to 498,000 tons.

The Petroleum Association of Japan reported that the country's oil inventories in the week ending May 28th increased by 3.41 million barrels on the week and by 10.67 million barrels on the year to 107.7 million barrels. Japan's gasoline stocks fell by 410,000 barrels on the week and by 2.54 million barrels on the year to 13.44 million barrels while kerosene stocks fell by 320,000 barrels on the week but increased by 2.99 million barrels on the year to 14.32 million barrels. Japan's crude runs fell by 160,000 bpd on the week and by 330,000 bpd on the year to 2.73 million bpd. Refinery utilization fell by 4% on the week but increased by 4.3% on the year to 68.1%. The PAJ also reported that Japan's total oil sales fell by 9.1% on the week and by 5.4% on the year to 2.3 million bpd.

Production News

A cargo of Forties crude was delayed in June due to low North Sea production, increasing the number of deferred cargoes to at least 11. Four cargoes of Forties crude have also been cancelled from the June loading program.

Iraq's SOMO said the country's oil exports in May averaged 2.225 million bpd. It is the fifth consecutive month that Iraq's oil sales exceeded 2 million bpd. Basra Light crude exports flowed at 1.725 million bpd in May, up from 1.656 million bpd in April while Kirkuk exports averaged 500,000 bpd in May, up from 483,333 bpd in April. Exports from Turkey's Ceyhan port stood at 490,000 bpd in May.

India's crude oil output in April increased by 11% on the year to 3.186 million metric tons or 778,400 bpd as higher production from Cairn India Ltd's oil fields more than offset lower output from state run Oil & Natural Gas Corp. Oil production at ONGC fell by 3.1% to 1.968 million tons in April from 2.03 million tons.

Brazil's National Petroleum Agency reported the country's crude oil production fell in April to 2.052 million bpd, down from 2.082 million bpd in March. It reported that Brazil's natural gas production increased by 1.8% on the month to 62.5 million cubic meters/day.

Petrobras said Brazilian labor officials prohibited the company from restarting operations at the P-65 platform until safety issues are addressed. Petrobras said the platform, which processes oil at the Enchova field, was shut since May 23rd for maintenance work. The platform is an offshore oil treatment facility and does not produce oil.

Georgia's Black Sea port of Batumi shipped 555,202 tons of oil in May, up 5.3% on the year and 9.3% on the month.

Russia is scheduled to export 5.8 million metric tons or 1.4 million bpd of Urals crude in June from its Baltic Sea port of Primorsk, down from May's 6.2 million tons. Russia is also scheduled to export 3.158 million tons of Urals crude from its Black Sea port of Novorossiisk and 450,000 tons of Siberian Light crude from the port of Tuapse.

Mexico's Pemex is suing 11 US companies for buying fuel stolen by drug gangs and smuggled across the US-Mexico border. Pemex filed the suit on Sunday in a US district court in Texas, claiming some of the companies conspired with Mexican criminals to forge documents and smuggle the hijacked natural gas condensates.

Market Commentary

Oil fell below \$100 a barrel after a report by payroll processor ADP indicated that the private sector added the fewest jobs since September. Factory orders fell to 50.10, the lowest level since June of 2009, adding to the pressure on prices. A lack of crisp news out of the Middle East has pushed diminishing demand into the spotlight. This, coupled with weak economic indicators should continue to weigh on prices, pushing the July contract towards our target of \$89.45. Upon examination of the forward curve and current open interest, it appears that those who have put on length out to June 2012 have been lightening up on their positions. Based upon our current bearish outlook, we would look to sell the June 12 and buy the December 12 contract. This spread has currently bounced off of support at .19. We would look to sell it with a break below this level, with the possibility of a retracement back to the -.80 level.

Crude oil: July 11 365,230 -11,390 Aug 11 98,954 +6,948 Sept 11 106,051 +3,917 Totals 1,508,418 +1,983 Heating oil: July 11 103,660 +692 Aug 11 43,165 +3,062 Sept 11 32,560 +1,346 Totals

300,371 -623 Rbob: July 11 91,009 -1,161 Aug 11 31,357 +3,665 Sept 11 34,965 +1,139 Totals 354,108 -4,134

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
9620	10340		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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