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## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR MAY 4, 2010**

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A Kuwaiti oil official said oil prices could reach \$100/barrel if there were dramatic developments in the Gulf of elsewhere. He said an escalation in tension between Iran and the West over Iran's nuclear activities, security developments in Nigeria and weather changes could push the price of oil to \$100/barrel.

Iran said the possession of more than 5,000 nuclear warheads by the US is unjustified and threatens global security. The US revealed for the first time Monday at the Nuclear Non-proliferation Treaty review meeting that it has a total of 5,113 nuclear warheads in its stockpile as of September 30, 2009.

An Iranian naval commander,

#### **Market Watch**

Baker Hughes said it expects oil drilling activity to increase this year while natural gas drilling activity is expected to peak in the second quarter of 2010. The number of rigs drilling for oil in the US is expected to average 570 in the second half of 2010, supported by current oil prices. The US gas rig count is expected to peak and then average about 765 rigs during the second half of the year.

Energy Security Analysis Inc estimates that the sustainable price of oil over the next two years is \$70-\$90/barrel. It based its estimate on fundamental signals such as the marginal cost of non-OPEC production which is set by Canadian oil sands and the cost is over \$65/barrel. It said the recession reduced oil demand significantly and OPEC responded so effectively that OPEC spare capacity has increased. OPEC's newfound spare capacity strengthens its hand in influencing prices. It added that there is still enough refining capacity and refining capacity utilization rates are historically low. It also stated that over the next two years, light sweet crude production will increase by about 800,000 bpd in 2010 and 2011. It added that even with a weak European economy, slow recovery in the US a double dip recession is almost impossible.

The Commerce Department reported that new orders for US manufactured goods increased by 1.3% in March to \$391.5 billion. It reported that factory orders in February increased by 1.3%, up from the previous estimate of a 0.6% increase. In March, orders for manufactured goods, excluding transportation, increased by 3.1%. It reported that orders for durable factory goods fell by 0.6% in March.

The National Association of Realtors said the index for pending sales of used homes increased by 5.3% to 102.9. Year over year, the index was 21.1% above its level of 85 in March 2009. It projected existing home sales of 5.38 million this year and 5.66 million in 2011. It also reported that the median price for an existing home is estimated at \$176,900 in 2010 and \$183,400 in 2011.

The UK's Chartered Institute of Purchasing and Supply/Markit manufacturing PMI increased to 58 in April from an upwardly revised 57.3 in March. New orders increased at their fastest pace in more than six years.

The Baltic Exchange's main sea freight index fell 0.06% or 2 points to 3,352 points on Tuesday due to lighter market activity. The Baltic's capesize index fell by 1.12% on Tuesday with average capesize earnings falling to \$38,044. The Baltic's panama index increased by 0.26% on Tuesday while the supramax index increased by 0.63%.

### API Stocks

**Crude** – up 2.951 million barrels  
**Distillate** – up 1.372 million barrels  
**Gasoline** – up 1.459 million barrels  
**Refinery runs** – up 2.7%, at 87.4%

Habibollah Sayari said Iran's navy will begin an eight day drill in the Persian Gulf on Wednesday. He said the navy will perform the drill in the Persian Gulf, Sea of Oman and the northern Indian Ocean. Separately he stated that an Iranian navy plan that came close to a US aircraft carrier in the Gulf was filming the vessel. The incident happened on April 21<sup>st</sup>, ahead of war games conducted by Iran's Revolutionary

Guards in the Gulf and the Strait of Hormuz.

According to a Spending Pulse report by MasterCard Advisors LLC, US gasoline demand was unchanged on the week at 9.213 million bpd, the lowest level since the week ending February 12<sup>th</sup>. Gasoline demand in the latest four weeks fell by 1.1% or 101,000 bpd on the year to 9.297 million bpd. It reported that the average retail price of gasoline increased by 1 cent to \$2.86/gallon. It is up 40.2% on the year.

### Refinery News

Colonial Pipeline allocated shipping space for gasoline on its main line north of Collins, Mississippi for cycle 27 as demand exceeds capacity. It is the seventh consecutive cycle where high demand for space has restricted shipping volumes.

The Louisiana Offshore Oil Port said shipping operations are normal despite the oil spill in the US Gulf of Mexico. The oil spill had no impact on operations at the port. Separately, major Gulf refineries said their operations have not been impacted by the oil spill in the Gulf.

Valero Energy Corp said the delayed coker at its 310,000 bpd Port Arthur, Texas refinery is operating at reduced rates amid ongoing repairs.

Frontier Oil Corp said its El Dorado, Kansas refinery is expected to operate at 128,000 bpd in May, about 7,000 bpd below full capacity. Its Cheyenne, Wyoming refinery is expected to operate at 48,500 bpd, about 3,500 bpd below capacity.

Magellan Midstream Partners LP said it was considering converting a portion of its Houston to El Paso pipeline to crude service and constructing an additional 2 million barrels of crude storage at Cushing, Oklahoma. It said that even after the conversion, it will still be able to transport at least 60,000 bpd of refined petroleum products.

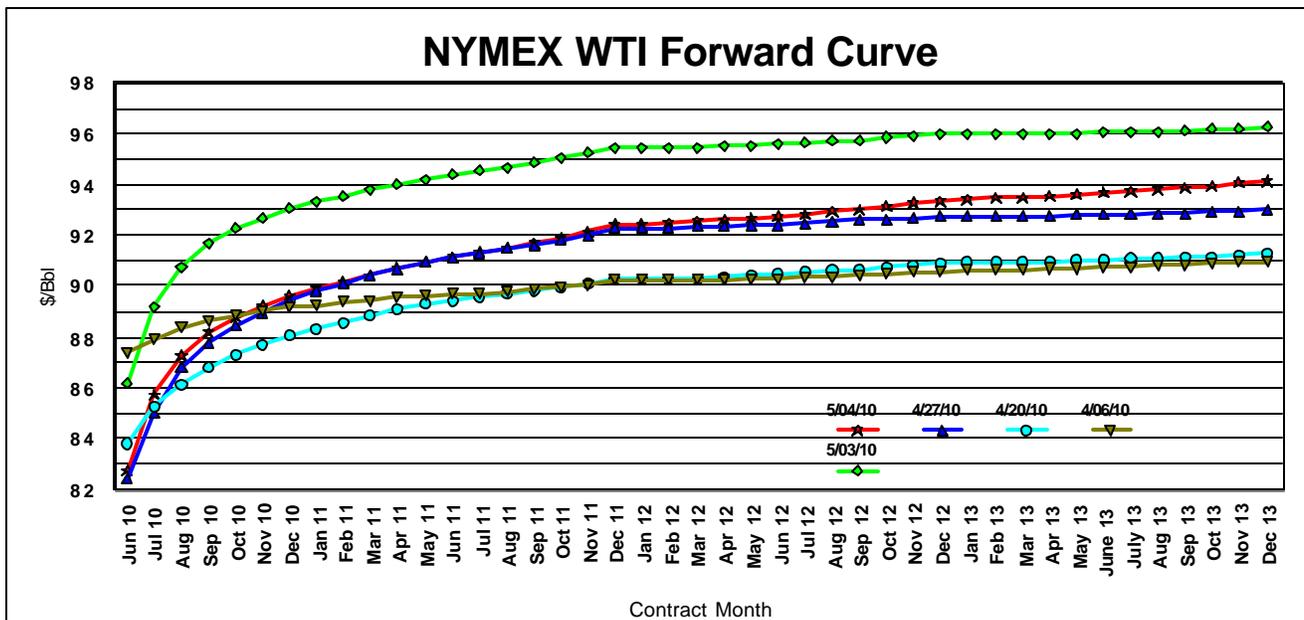
Traders said cargoes of Nigerian light sweet crude are struggling to find buyers in the US. Demand for imported oil across the Atlantic is declining amid high stock levels, which rising freight rates have worsened the arbitrage economics from West Africa to the US and prices for Nigerian barrels are starting to fall as a result.

Iran's gasoline imports in May are expected to fall by about 20% on the month as independent traders and international oil firms cease sales to the country. Iran is expected to import about 102,300 bpd of gasoline from the spot market in May. Total is expected to ship up to 50% of Iran's total purchases for May.

Brazil's Foreign Trade Ministry reported that the country's ethanol exports fell to 34.9 million liters in April from 250 million liters in the same month a year ago. It was also down from 68 million liters reported in March.

### Production News

**May  
Calendar Averages**  
**CL – \$84.47**  
**HO – \$2.3023**  
**RB – \$2.3787**



Nexen Inc shut its 200,000 bpd Buzzard oil field in the North Sea for the installation of the topsides of the fourth platform and for work on the separator unit. The activity is expected to take at least a week.

Suncor Energy Inc is planning a 45 day maintenance period at its oil sands operations starting in May. It will perform maintenance work on upgrader unit 2 vacuum tower. It said work on the vacuum tower will reduce oil production by 85,000 bpd.

BP Plc said it prepared the first of three giant domes to collect oil spilling into the Gulf of Mexico and channel it into a waiting tanker. It said it expects to load the containment chamber on Tuesday and hopes to have the system operating within a week. Efforts to contain the leak are costing more than \$6 million/day.

According to a lightering company official, lightering operations in the Gulf of Mexico remain normal despite the oil spill east of the Southwest Pass Lightering area.

Royal Dutch Shell has not been directed to stop drilling in the Gulf of Mexico after a BP offshore well ruptured two weeks ago. BP Plc is working to stem the damage from the oil spill. Shell, along with Chevron and ExxonMobil are working together in the cleanup effort. Separately, Anadarko Petroleum Corp said it will assist in the industry wide effort to contain the oil spill in the US Gulf of Mexico. Anadarko has a 25% non-operating stake in the damaged well leaking oil in the US Gulf of Mexico.

Brazil's Petrobras said the development of two fields in the Gulf of Mexico is on schedule despite calls for a halt in the wake of the ongoing environmental disaster. A Petrobras official said the company was moving forward as planned at its Cascade and Chinook fields. US President Barack Obama suspended drilling in the Gulf after a BP Plc rig exploded in late April.

A minor explosion in an oil heater in the Neutral Zone Kuwait shares with Saudi Arabia has injured a worker. It however did not impact operations.

Russia's Energy Ministry reported that the country's oil output in April fell by 0.2% to 10.11 million bpd.

Kazakhstan's Caspian Pipeline Consortium said Kazakh and Russian crude oil exports via the CPC increased by 6.5% to 760,400 bpd in April from 714,000 bpd in March. The consortium transported 22.812 million barrels of CPC Blend in April compared with 22.133 million barrels in March.

Colombia's Mines and Energy Ministry reported that the country's total proven reserves of crude oil increased to 2.05 billion barrels, up from 1.79 billion barrels a year ago. The probable reserves stand at 586 million barrels and possible reserves stand at about 464 million barrels. Total reserves, including proven, probable and possible reserves total 3.1 billion barrels.

Ecuador's central bank reported that the country's oil exports increased to 364,412 bpd in March, up 17.9% from 309,187 bpd a year ago. Its oil export income for the month increased to \$826.4 million from \$347.8 million a year ago.

The head of Russia's OAO Transneft, Nikolai Tokarev complained to Prime Minister Vladimir Putin that Ukraine's oil transit fees are too high.

Saudi Aramco set the price of its Extra Light crude bound for Northwest Europe in June at BWAVE minis \$2.20, up 20 cents on the month; the price of its Light crude at BWAVE minus \$3.55, up 20 cents; the price of its Medium crude at BWAVE minus \$5.45, unchanged on the month and the price of its Heavy crude at BWAVE minus \$6.55, down 30 cents. Its Extra Light crude bound for the US was set at the Argus Sour Crude Index plus \$1.70, up 35 cents; its Light crude price was set at ASCI minus 35 cents, up 5 cents; its Medium crude price was set at ASCI minus \$2.15, up 5 cents and its Heavy crude price was set at ASCI minus \$3.70, down 10 cents. Its Super Light crude bound for Asia was set at the Oman-Dubai average plus \$2.20, up 10 cents; its Extra Light crude was set at the Oman-Dubai average plus \$1.35, up 20 cents; its Light crude was set at the Oman-Dubai average plus 20 cents, up 30 cents; its Medium crude was set at the Oman-Dubai average minus \$1.60, up 10 cents and its Heavy crude was set at the Oman-Dubai average minus \$2.90, unchanged on the month.

OPEC's news agency reported that OPEC's basket of crudes increased by 23 cents to \$84.36/barrel on Monday from \$84.13/barrel on Friday.

### **Market Commentary**

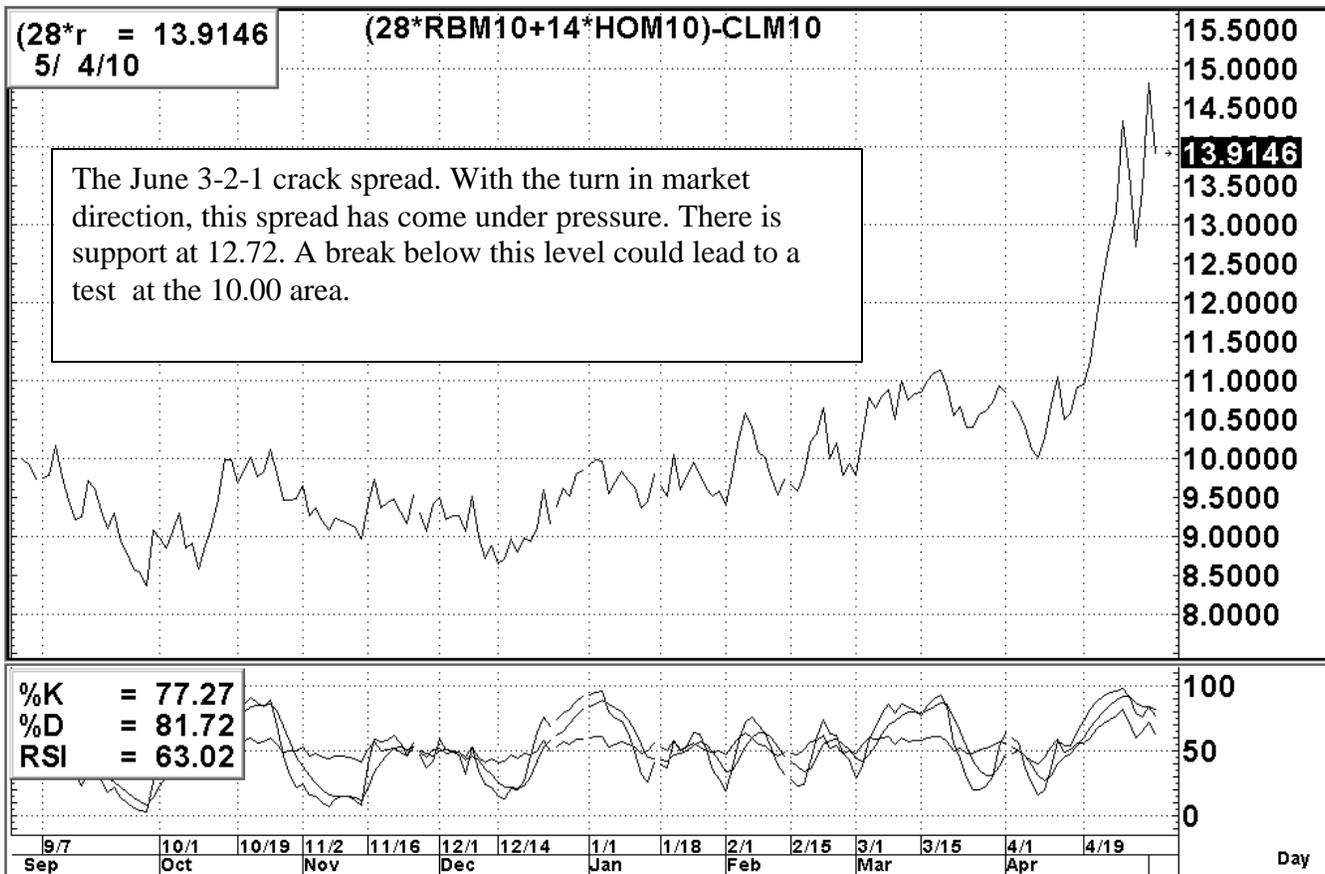
The inability of crude oil to hold above the \$87.00 level, lead to a key reversal in market direction. This is the second time this year that prices have failed to hold above \$87.00. Crude oil declined the most in three months aided by slipping Chinese manufacturing, growing concerns over the Greek economy and a strong U.S. dollar. Perhaps dragging on flat price is the front month crude oil spread, which continues to show signs of underlying weakness in this market. The June/July crude oil spread bottomed out today at -\$3.46, settling at -\$3.02. This is the widest that the front month crude oil spread has traded since February of 2009. This is a clear indication that demand for crude oil is still suffering as supplies continue to swell. This is not the same scenario for supplies going forward as concern grows that the oil spill in the U.S. Gulf Coast will lead to shortages several months down the road. Inventory expectations are calling for slight builds across the board, adding pressure on both heating oil and gasoline. The price of cracking three barrels of crude oil into two barrels of gasoline and one barrel of heating oil came under pressure after making a significant climb since the beginning of April. The June 3-2-1 crack spread lost .9096 cents and is approaching support at \$12.72. A penetration by this spread at this level, a test at the \$10.00 low in the beginning of April is greatly possible. We would look for continued pressure on the front end of the curve and for the June contract to come under additional pressure. A break below support at \$81.43 could lead to a test at \$76.25.

The API reported a larger than expected build in crude stocks of 2.951 million barrels on the week. It reported a large build of 2.022 million barrels in Padd 3 alone. The API reported a build in crude

stocks as imports increased by 361,000 bpd to 9.8 million bpd. It however reported that crude runs increased by 412,000 bpd to 14.953 million bpd on the week. The API reported that distillate stocks built by 1.372 million barrels on the week, with a large build of 1.123 million barrels in Padd 1. It reported the build as apparent distillate demand fell by 5.7% on the week and by 4.4% on the year to 4.071 million bpd. Distillate production also increased by 163,000 bpd or 4.2% to 4.087 million bpd on the week. The API reported a larger than expected build in gasoline stocks of 1.459 million bpd, with a build of 1.419 million barrels in Padd 1. It reported the build in gasoline stocks as apparent demand fell by 2.9% on the week and by 5.8% on the year to 8.945 million bpd while apparent demand basis a three week moving average fell by 0.6% on the week and by 3.7% on the year to 9.226 million bpd. The API also reported the build in gasoline stocks as production increased by 14,000 bpd or 0.2% on the week to 8.997 million bpd and imports increased by 26,000 bpd or 20% to 156,000 bpd.

Crude oil June 10 345,539 -9,868 July 10 215,276 +4,371 Aug 10 92,452 -643 Totals 1,44,108 -2,472 Heating oil June10 107,238 -2,085 July 10 41,557 +504 Aug 10 26,530 -29 Totals314,248 -1,193 Gasoline June 10 116,569 -1,015 July 10 57,645 -665 Aug 10 30,794 -1,155 Totals 309,375 -1,960

<b>Crude Support</b>	<b>Crude Resistance</b>
82.20, 81.43, 80.35,80.03, 79.75-79.51, 78.43, 76.15, 75.37, 72.60, 71.31, 70.42, 69.50, 65.05, 64.70, 63.38, 62.70, 61.61, 60.95	87.85, 88.80, 89.10, 89.88, 91.11, 92.75
<b>Heat Support</b>	<b>Heat resistance</b>
2.1084, 2.0800, 2.0180, 1.9975, 1.9860, 1.8570, 1.8280, 1.7670, 1.7565	2.4200, 2.4940,
<b>Gasoline support</b>	<b>Gasoline resistance</b>
2.1460, 2.1320, 2.0660, 2.0420, 1.9970, 1.9862, 1.8650,	2.4850, 2.5040, 2.5115, 270.80



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