



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR MAY 4, 2011**

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French Foreign Minister Alain Juppe said international forces are seeking to weaken Libyan leader Muammar Gaddafi's regime by bombarding his strategic sites. He said their aim was not to kill the Libyan leader. He also stated that securing financing for Libya opposition rebels and facilitating contacts with defectors from Muammar Gaddafi's government would be the focus of Libya talks in Rome on Thursday.

Meanwhile, at least five people were killed as forces loyal to Libyan leader Muammar Gaddafi attacked the port in the city of Misrata on Wednesday.

Iran's Vice President Lotfollah Foruzandeh said Iran will merge its oil and energy ministries and the

#### **Market Watch**

The ADP Employer Services report showed that US private employers added 179,000 jobs in April while payrolls in March were revised up to an increase of 207,000 from a previously reported increase of 201,000.

According to a report from consultants Challenger, Gray & Christmas Inc, the number of planned layoffs at US firms fell in April by 12% to 36,490 from 41,528 in March. It is the lowest monthly amount for the year so far. Job cuts were down about 5% from year ago planned layoffs of 38,326.

The Mortgage Bankers Association said applications for US home mortgages increased last week. Its seasonally adjusted index of mortgage application activity, which includes both refinancing and home purchase demand, increased 4% in the week ending April 29<sup>th</sup>. Its seasonally adjusted index of refinancing applications increased 6% while the index of loan requests for home purchases increased 0.3%.

The ISM's nonmanufacturing purchasing managers' index fell to 52.8 in April from 57.3 in March. It said the business activity/production index fell to 53.7 from 59.7 in March while the new orders index slowed sharply to 52.7 from 64.1. The ISM employment index fell to 51.9 in April from 53.7 in March.

San Francisco Fed President John Williams said the US is not facing a sustained bout of high inflation despite a recent surge in energy and food prices that is sparking fears of price increases seen in the 1970s. He said that while sharp commodities price increases are a serious concern prices of some such as sugar and cotton are starting to decline and added that slow wage growth is acting as a brake on broader inflation.

JP Morgan said diesel prices could be in for a summer surge. It said strong demand for gasoil in emerging markets combined with subsidies that hide the true price from consumers, are leading to supply declines.

House Republicans voted to advance legislation to delay new derivatives regulations for 18 months, in one of two committee votes needed to move the bill to the House floor. The House Financial Services Committee must also approve the bill because the two committees share oversight of the Dodd-Frank financial overhaul law. It may vote on the bill next week. The bill would delay until December 31, 2012, most of the derivatives rules required under Dodd-Frank. It would keep the deadline for this July for swaps traders to report their deals to regulators and for regulators to define who is covered by the law.

The CFTC created an advisory panel that would help it implement portions of the new Dodd-Frank law that gives the government more oversight of the derivatives market. The special panel would focus on standardizing the reference data used to describe and value derivatives that are traded on regulated exchanges and in the over-the-counter market.

### **DOE Stocks**

**Crude** – up 3.421 million barrels

**Distillate** – down 1.398 barrels

**Gasoline** – down 1.046 million barrels

**Refinery runs** – up 0.1%, at 82.8%

labor and social welfare ministries. The announcement is part of a plan to cut the number of ministries to 17 from 21, which the government said would produce a more streamlined, efficient administration.

US Senators from farm states introduced legislation that would modify subsidies for the ethanol industry. The new bill would extend the tax credit for ethanol makers for two years, which along with a tariff on imported ethanol, is set to expire at the end of the year. However the measure would reduce the current 45 cent/gallon credit, which is estimated to cost \$6 billion a year. In 2012, the credit would fall to 20 cents/gallon and in 2013 it would fall to 15 cents/gallon. After 2013, the credit would be linked to the price of oil. If the price of oil was over \$50/barrel, the credit would be 24 cents/gallon. It would fall 6 cents for every \$10 increase in the price of crude until the price reaches \$90/barrel, when the credit would end.

### **Refinery News**

Motiva Enterprises shut a sulfur recovery unit at its 235,000 bpd Convent, Louisiana refinery due to an upset.

Marathon Oil Corp said it was closely monitoring the flooding situation along the Mississippi River to determine if any special preparations were required at its 436,000 bpd refinery in Garyville, Louisiana. Meanwhile, ExxonMobil said it was closely monitoring conditions on the Mississippi River along its Baton Rouge and Chalmette refineries in Louisiana. Valero Energy Corp said it expects no disruptions to production at its Memphis or St. Charles refineries from the flood situation along the Mississippi River. It said it was monitoring the situation. Separately, Valero Energy Corp said a crude unit that was shut for repairs of a leak at its 235,000 bpd Aruba refinery had restarted and was nearing planned rates.

ConocoPhillips said its Los Angeles refinery resumed normal operations.

Royal Dutch Shell Plc said work on a 100,000 bpd expansion of its Scotford oil sands upgrader in northern Alberta is complete and the facility has started producing synthetic oil. The expansion increased the capacity of the upgrader to 255,000 bpd.

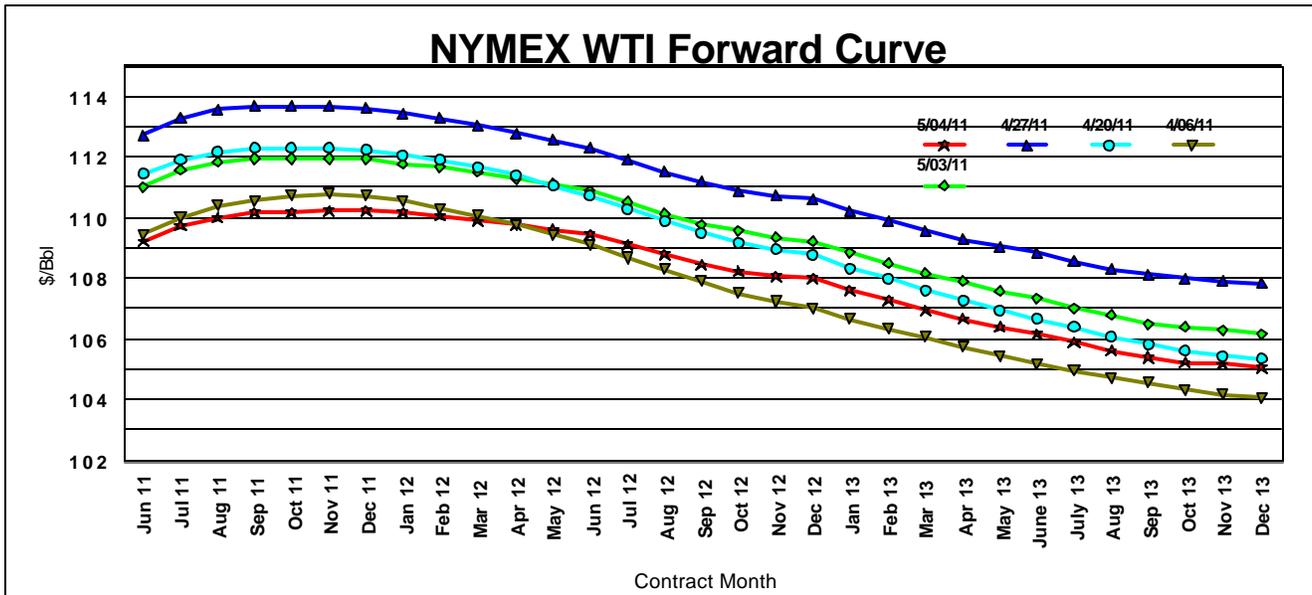
Regulators said a leak in the Rainbow pipeline system in northern Alberta spilled 28,000 barrels of oil before the line was shut in. The spill from the 220,000 bpd pipeline, running from northern Alberta to Edmonton and serving markets on the US west coast occurred Friday. Plains All American Pipeline LP completed repairs to the pipeline. It is still awaiting regulatory approval to restart shipments on the line.

Magellan Midstream Partners said its Texas Longhorn pipeline reversal project would carry more crude than previously announced and is on track to provide relief to the supply glut at the Cushing, Oklahoma storage terminal. It revised the capacity of its Houston-to-El Paso Longhorn pipeline to 225,000 bpd.

Singapore Refining Co is expected to restart a crude distillation unit and a gasoline-diesel making unit at its 290,000 bpd refinery this week following the completion of a planned maintenance outage.

China National Petroleum Corp expects to complete a capacity expansion of its oil pipeline in southwestern China by the end of May. When completed, the gasoline and diesel pipeline linking the capital of Lanzhou in western

<p><b>May Calendar Averages</b> <b>CL – \$111.27</b> <b>HO – \$3.1953</b> <b>RB – \$3.3333</b></p>
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China's Gansu province and southwestern China's Chongqing municipality would be able to deliver 7 million metric tons of fuel oil a year, up from 5.8 million tons. The expansion would help ease fuel shortages in southwestern China.

Greece's Hellenic Petroleum is being forced to import fuel as further strikes over wages are scheduled to start on May 6<sup>th</sup>. It is seeking to purchase about 60,000 tons of refined products via tender for delivery in the first half of May. It seeking to buy 30,000 tons of gasoline and 30,000 tons of gasoil.

Tajikistan saw panic buying of gasoline on Wednesday after Russia halted exports to the country. Tajikistan has no oil or gas reserves and last year imported 90% of its oil products from Russia.

### **Production News**

According to a Dow Jones Newswire survey, OPEC's total oil production in April increased by 0.6% on the month to 28.748 million bpd from 28.585 million bpd in March. OPEC 11 oil production in April increased by 223,000 bpd on the month to 26.058 million bpd. It showed that Saudi Arabia's oil production increased by 258,000 bpd on the month to 8.55 million bpd in April.

Ongoing production issues at the 200,000 bpd Buzzard field in the North Sea caused severe delays to cargoes of Forties crude for delivery in May. Three cargoes of Forties crude was cancelled and over half are facing delays of two to three days.

Colombia's Cano Limon pipeline resumed pumping on Wednesday following a bomb attack over the weekend. Rebels from the Revolutionary Armed Forces of Colombia or FARC were blamed for the attack on Saturday. It was the third attack on the pipeline this year.

Norway's Statoil said production in the first quarter fell by 8% on the year to 1.77 million bpd of oil and gas equivalent, partly due to problems at its North Sea fields. It maintained its view that oil and gas equity production in 2011 would be at the same level or below its 2010 level of 1.9 million bpd of oil and gas equivalent. Separately, Statoil stated that the oil spill in the Gulf of Mexico delayed its plans in the region by one year. The company was recently allowed to drill two wells in the region, which it had been given permission for prior to the Macondo accident.

Workers at the Hadramout oilfield in southern Yemen returned to work late on Wednesday following a brief strike. Production at the 150,000 bpd oilfield had been halted due to the strike.

Yemen has halted production and exports of crude oil from its offshore Ras Isa terminal in the Red Sea for over three weeks after an attack on its main oil pipeline.

Ecuador's central bank reported that the country exported 10.72 million barrels in March, up 8% from 9.94 million barrels in February.

Russian and Kazakh oil exports in April via the Caspian Pipeline Consortium fell by 2.2% on the month to 707,548 bpd.

Syrian crude oil production in the first three months of the year averaged 387,000 bpd, up 4,700 bpd on the year.

OPEC's news agency reported that OPEC's basket of crudes fell to \$118.75/barrel on Tuesday from \$119.90/barrel on Monday.

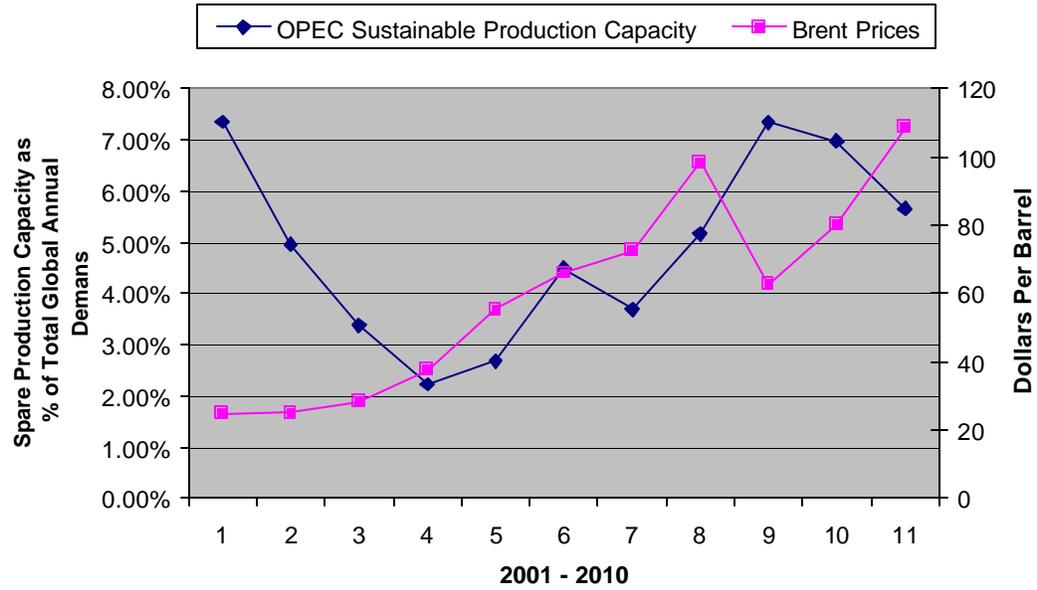
**Market Commentary**

In response to an increase of 3.42 million barrels of crude oil, prices traded at their lowest level in two weeks. Prior to the numbers, this market was in a technical decline with traders deciding to turn profits. Higher prices appear to be having an impact on demand, as total products supplied dipped by 2.2 percent to 8.9 million barrels on the week. With the upcoming U.S. summer driving season approaching, all eyes will be on demand and as to whether or not a new driving trend is underway. High prices have already had an effect on prices, as gasoline demand is showing signs of slipping. With China and India taking steps to curb inflation, this economic impact will surely curtail demand. With the settlement of the June crude oil contract below the \$109.52 trendline, prices should make a test at the \$105.00 level.

Crude oil: June 11 328,010 -12,952 July 11 230,191 +8,090 Aug 11 83,285 +1,216 Totals 1,624,328 -1,079 Heating oil: June 11 117,614 -1,466 July 11 47,568 -1,900 Aug 11 30,208 -61 Totals 314,173 -1,485 Rbob: June11 104,288 +596 July 53,771 -453 Aug 11 28,219 -325 Totals 301,213 +1,021

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
10845	10933	30810			35915
10484	11050	27980		30130	36310
10270	11483	26680	33510	26965	
10136	11563	27375		26300	
10000	11703	23685		25683	
9622	12126	22960		25145	
9540	14933			24240	
				23631	
				23414	

### OPEC Sustainable Production Capacity



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