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Windham Group



ENERGY RISK MANAGEMENT

Howard Rennell, Pat Shigueta,
& Karen Palladino
(212) 624-1132 (888) 885-6100

www.e-windham.com

ENERGY MARKET REPORT FOR MAY 9, 2011

Qatar's Energy Minister Mohammed Saleh al-Sada ruled out any dramatic action by OPEC to control prices, insisting that production and supplies are at healthy levels. He said OPEC is not expected to make any major changes at its upcoming meeting.

Total said the European market has enough crude supply however conditions remain difficult due to the loss of Libyan oil. It said there was no demand destruction.

Market Watch

The Organization for Economic Cooperation and Development said its composite leading indicator for member countries increased to 103.2 points in March from 103 in February. The index showed regained momentum in economic activity in China and Canada while the US, Germany and Russia were also in the midst of above trend expansion. The indicator for countries in the Group of Seven wealthy countries, excluding Iran, increased to 103.6 in March from 103.4 in February. For the euro zone, the indicator fell to 103.1 from 103.2.

Central bankers voiced concern about the recent volatility in commodity markets, saying they needed to better understand its impact on inflation at a time when some emerging economies may be overheating. Jean-Claude Trichet, speaking as chair of talks at a Bank for International Settlements meeting also said policymakers had not discussed in depth Greece's fiscal problems but said there was an agreement that some advanced economies needed to improve their finances.

ICE Futures Europe posted a record volume for Brent crude futures contracts and set an exchange wide daily volume record on Friday. The new record saw the volume of Brent crude futures increase to 906,958 surpassing the previous record by 9%. Overall volume was 1,703,446 compared with 1,698,258 when the previous record was set in February.

Reuters reported today that it appears several large hedge funds have suffered double-digit losses last week as oil fell by a near record \$16 per barrels. Astenbeck II a \$2.6 billion fund run by Andrew Hall was one such fund reportedly posted 12% losses last week while other funds such as BlueGold, Clive Capital, and Transtrend were also linked to large losses.

Iran's President Mahmoud Ahmadinejad said Iran would hold talks with major powers in Turkey over its nuclear program. Iran's nuclear talks with major powers in January failed after Iran refused to halt its uranium enrichment.

The EIA reported that the US average retail price of diesel fell by 2 cents to \$4.104/gallon in the week ending May 9th. The price of diesel was up 97.7 cents or 31.2% on the year. It also reported that the US average retail price of gasoline increased by 0.2 cents to \$3.965/gallon on the week.

Refinery News

TransCanada Corp said its Keystone Pipeline System spilled about 500 barrels of oil at a pump station in North Dakota. The spill occurred early Saturday morning from a valve failure at a pump station. The 591,000 bpd pipeline is expected to remain shut for a few days. The spill comes as

TransCanada is seeking approval from the US State Department to expand the Keystone system to 1.1 million bpd and to extend it from Cushing, Oklahoma to refineries on the US Gulf Coast.

**May
Calendar Averages**
CL – \$105.56
HO – \$3.0467
RB – \$3.2440

Credit Suisse reported that the US refinery margins increased by 15% on average for the week ending May 6th. It reported that refinery margins in the Northeast increased by \$2.08 to \$11.21/barrel while margins in the Midwest increased by \$5.63 to \$34.49/barrel on the week and margins in the Gulf Coast increased by \$1.85 to \$28.25/barrel. Meanwhile refinery margins in the Rockies region increased by \$7.20 to \$35.35/barrel while margins in the West Coast increased by 45 cents to \$18.67/barrel.

ExxonMobil Corp reported a sulfur recovery unit failure at its 238,600 bpd Joliet, Illinois refinery. The failure triggered flaring of sulfur dioxide at the refinery. It said the refinery was operating normally after experiencing the unit upset on Sunday.

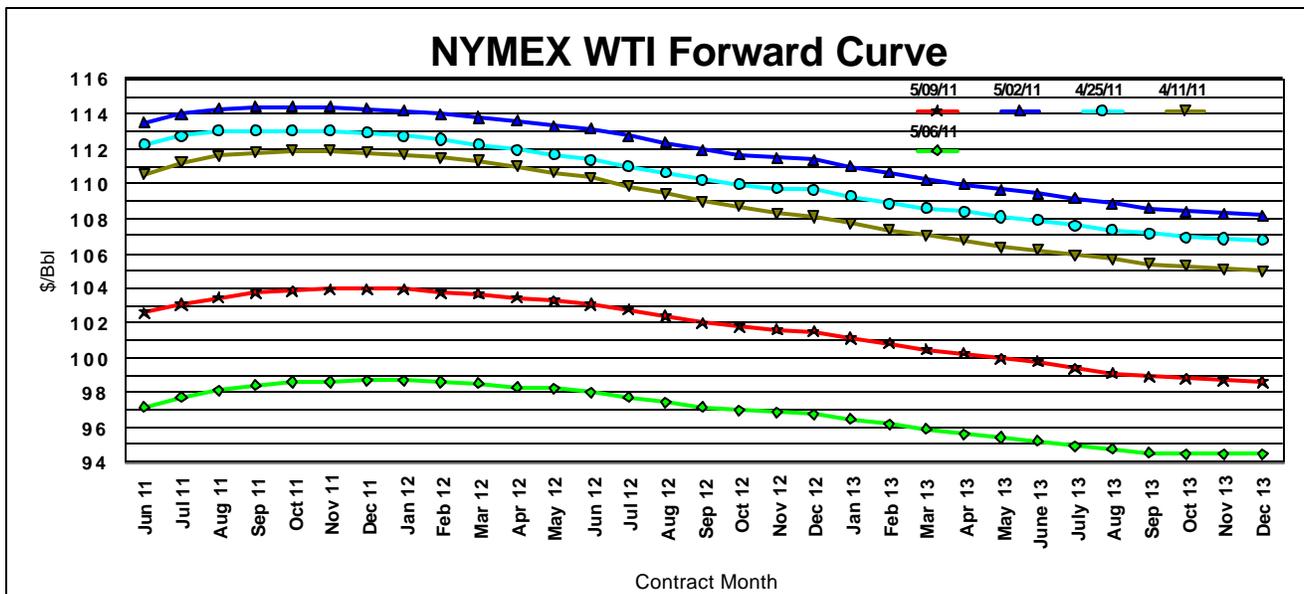
Valero Energy Corp's 180,000 bpd Memphis, Tennessee refinery remained in operation on Monday morning as the Mississippi River was approaching record flood levels. Valero said no interruptions are expected. Meanwhile, ExxonMobil's Baton Rouge, Louisiana refinery, Chalmette Refining's 504,500 bpd Chalmette, Louisiana refinery, Murphy Oil's 192,500 bpd Meraux, Louisiana refinery, Marathon Oil's 120,000 bpd Garyville, Louisiana refinery, Motiva's 436,000 bpd Convent, Louisiana refinery and Motiva's 235,000 bpd Norco, Louisiana refinery are operating normally.

Separately, Valero Energy Corp said a 145,000 bpd crude unit at its Aruba refinery resumed normal operations after completing repairs. It was taken out of service nearly two weeks due to a leak. The refinery resumed planned rates.

Alon USA expects flooding to affect operations by cutting off a form of crude supply at its 83,100 bpd refinery in Krotz Springs, Louisiana. A tornado outbreak in late April caused heavy rains which flooded the region.

Citgo Petroleum reported emissions due to an unknown cause at its 167,000 bpd Lemont, Illinois refinery. The company said it is trying to fix the failures.

Chevron Corp reported a plant start up of its 330,000 bpd refinery in Pascagoula, Mississippi. It said one of two crude units experienced an isolated fire, which was quickly extinguished.



Sunoco reported emissions of sulfur dioxide at its 178,000 bpd refinery in Marcus Hook, Pennsylvania.

Kuwait National Petroleum Co's 200,000 bpd Shuaiba refinery is slowly resuming production following a month long shutdown for planned maintenance. The refinery is expected to slowly increase its output and reach full capacity.

Japan's Cosmo Oil Co said it still could not predict when it would be able to restart its quake hit 220,000 bpd Chiba refinery. The refinery was damaged due to the earthquake in March.

The Baku-Tbilisi-Ceyhan oil pipeline is expected to pump 23.3 million barrels of crude in June, up 1.15 million barrels on the month. June loadings would amount to 776,667 bpd compared with 714,516 bpd in May.

Estonia's main oil loading port, the Port of Tallinn, shipped 2.752 million tons of oil products in April, up 18.6% on the year and up from a revised 2.552 million tons loaded in March.

Production News

Saudi Arabia is expected to supply the same volumes of crude oil to European customers and one oil major in June as in May. Saudi Arabia notified its Asian customers that they would receive full contracted volumes in June.

Nexen Inc said production was temporarily shut in and operations suspended in Yemen due to a strike by members of the Masila Labor Union. Nexen is in talks with the union and government agencies to reach an agreement. Meanwhile, Nexen's Buzzard oil field in the North Sea is operating at reduced rates due to problems with its cooling system. It expects variable production there until a permanent solution is implemented this summer.

Qatar Petroleum and Japan's JX Nippon signed a \$100 million oil and gas exploration and production sharing agreement or EPSA. The 30 year agreement, starting with a five year exploration period, would allow JX Nippon to carry out seismic and other technical studies on Block A, an area near Qatar's North Field gas reservoir.

Iraq's South Oil Co said about 300 Iraqi oil workers staged a brief walkout in the southern oil hub of Basra on Monday, protesting a lack of financial benefits and threatening to halt production at some fields if their demands were not met. The demonstrators included engineers, technicians and worker at South Oil Co. They protested for three hours. They warned they could shut down production in some oilfields if they were not given financial bonuses similar to those given to workers in fields that are being developed by international oil companies.

Separately, Iraq's South Oil Co said ExxonMobil Corp and its partners are in the process of awarding a deal to the international oil service company Schlumberger Ltd to drill 15 new wells in Iraq's West Qurna phase one oil field in southern Iraq.

Glencore said it supplies about 3% of the world's oil consumption, with its largest customers the oil majors as well as national oil firms in India, Nigeria and Mexico. It supplied a physical volume of about 2.5 million bpd in 2010.

Brazil's independent driller OGX Petroleo e Gas Participacoes SA will participate in the country's auction of new oil and natural gas concessions, expected to be in the second half of 2011.

Yemen set its official selling price for Masila crude at 87 cents/barrel below Dated Brent for July supply, up \$1.39 from June.

Market Commentary

Crude oil bounced back from last week’s substantial sell-off on indications that the global economy was still intact. The June crude oil contract settled 5.5 percent higher from that of Friday’s session as it climbed back above \$103 a barrel. Gasoline experienced its largest jump in 19 months, gaining strength on rising water levels in the Mississippi River and their impact on refineries in the area. There are eleven refineries that stretch from New Orleans-to-Baton Rouge, with a combined capacity of 2.5 million barrels a day.

Last week’s sell-off is partially being viewed as technical selling by computerized trading systems, where computer generated stops were entered and triggered, accelerating the drop in prices. Perhaps giving a hint to this sharp sell-off was a change in market opinion by Goldman Sach’s, who in April stated that prices had run up too quick and too much. This may have left traders with the decision to set-up profit taking in the way of protective stops. There was also monetary tightening by China, the world’s second largest consumer of oil combined with political risk drawn into this market. These factors united in pushing prices lower.

Whatever the reason for last week’s sell-off, a technical correction was due and now it appears that prices will work higher for a period, perhaps working back towards the \$108.45 area

Crude oil: June 11 308,727 –22,339 July 11 271,344 +21,955 Aug 11 78,012 –2,580 Totals 1,645,447 –8,061 Heating oil: June 11 99,869 –7,632 July 11 49,939 +655 Aug 11 29,755 -459 Totals 308,327 –3,258 Rbob: June11 92,705 –3,787 July 56,604 +2,549 Aug 11 28,372 -234 Totals 300,278 +1,482

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
9284	10845		31325		30130
8700	11120	27695	32777		33369
8625	11483	26680	33370	26965	35915
8500	11563	27375	33510	26300	36310
8385	11703	23685		25683	
	12126	22960		25145	
	14933			24240	
				23631	
				23414	

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