



## ***ENERGY RISK MANAGEMENT***

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

**www.e-windham.com**

---

### **ENERGY MARKET REPORT FOR MAY 10, 2011**

---

In its latest Short Term Energy Outlook, the EIA estimated that total world oil consumption would increase by 1.4 million bpd in 2011, about 120,000 bpd lower than last month's estimate and 1.58 million bpd, up 20,000 bpd from its previous estimate. Total world oil demand in 2011 is estimated at 88.08 million bpd and 89.66 million bpd in 2012, down 0.14% and 0.11%, respectively from its previous estimate. Countries outside the Organization for Economic Cooperation and Development will make up almost all of the growth in consumption over the next two years, with the largest increases coming from China, Brazil and the Middle East. It reported that non-OPEC crude

#### **Market Watch**

Bank of America Merrill Lynch said oil may fall sharply lower later this year if Libya starts producing again and the dollar increases. It said it saw factors that could push oil to below \$100/barrel in the months to come, with signs of oil demand destruction and an increase in credit risks, the end of a bond buying program in the US and debt restructuring in Europe. Goldman Sachs has stated that it could not rule out a further correction in crude oil prices in the short term. However it stated that prices would then rebound above recent highs due to tight global supplies. JPMorgan also said oil prices increase above \$130/barrel in the third quarter and Barclays Capital and Deutsche Bank said the general trend should now be only higher.

The US Labor Department reported that US import prices continued to increase in April, pushed higher by energy costs. The price of goods imported to the US increased by a higher than expected 2.2% in April from the month before. This followed a 2.6% increase in March. Import prices increased 11.1% compared to April 2010, the largest annual gain in a year. Import fuel prices increased by a monthly 6.7%. Petroleum import prices in April increased 7.2% on the month.

The US Commerce Department said inventories of US wholesalers increased by 1.1% to a seasonally adjusted \$442.92 billion in March. It reported that sales by wholesalers in March increased 2.9% to \$392.01 billion. The inventory to sales ratio fell in March to 1.13 from 1.15 in February.

Small business owner pessimism worsened in April for the second consecutive month. The National Federation of Independent Business' small business optimism index fell by 0.7 point to 91.2 in April following a 2.6 point decline to 91.9 in March. The subindex of expected business conditions in the next six months fell 3% to -8% and the expected higher real sales index fell 1 point to 5%.

Richmond Fed Bank President Jeffrey Lacker said the Federal Reserve may need to increase interest rates later this year if a firming economic recovery increases inflation expectations. He said he was encouraged by the latest data showing a renewed willingness by US employers to hire new workers.

The Department of Transportation reported that US airlines' average fuel cost per gallon again increased in March to a more than two year high, increasing by 28% on the year and by 1.1% on the month to \$2.80/gallon. It said total fuel consumption on scheduled flights was 1.42 billion gallons in March, up 4.7% on the year and 19% on the month.

Reports of losses at several large commodity focused hedge funds during last week's crash revealed the large positions in oil and other commodity markets. The scale of positions suggests the long side of the market may be more concentrated than a simple examination of the weekly reports from the US Commodity Futures Trading Commission would imply. The funds that reported large losses due to last week's crash include Clive Capital, Astenbeck II, Blue Gold and Dutch technical fund Transtrend. The large positions held by a relatively small number of funds suggest the potential for high price volatility ahead as they try to book profits.

### API Stocks

**Crude** – up 2.948 million barrels  
**Distillate** – up 582,000 barrels  
**Gasoline** – down 1.835 million barrels  
**Refinery runs** – unchanged at 82.2%

production is expected to increase by 680,000 bpd to 52.34 million bpd in 2011 and by 420,000 bpd to 52.76 million bpd in 2012. OPEC's oil production in 2011 is expected to fall by 450,000 bpd to 29.32 million bpd and increase by 640,000 bpd to 29.96 million bpd in 2012. Projected OECD inventory in 2011 is estimated to fall by 20 million barrels to 2.636 billion barrels while stocks in 2012 is estimated to fall by 54

million barrels to 2.582 billion barrels. Total US oil demand is expected to increase by 130,000 bpd to 19.28 million bpd in 2011 and by 170,000 bpd to 19.45 million bpd in 2012. Its demand estimate for 2011 and 2012 was cut by 0.41% and 0.31%, respectively from its previous estimate. Gasoline demand in 2011 is estimated at 9.05 million bpd in 2011, up 20,000 bpd on the year while demand in 2012 is estimated at 9.13 million bpd, up 80,000 bpd on the year. Distillate demand in 2011 is estimated at 3.87 million bpd, up 80,000 bpd on the year while demand in 2012 is estimated at 3.94 million bpd, up 70,000 bpd on the year. In regards to prices, the EIA estimated that crude oil prices are estimated to average \$103/barrel in 2011 and \$107/barrel in 2012, down \$4 and \$6/barrel respectively from its previous estimate. It also reported that the US average retail price of gasoline is expected to increase from \$2.78/gallon in 2010 to \$3.63/gallon in 2011 and to \$3.66/gallon in 2012, down 7 cents and 14 cents/gallon respectively from its previous estimate. It said the price of gasoline is estimated at \$3.81/gallon during this year's summer driving season, down 5 cents from its previous outlook. The US retail price of diesel, which averaged \$2.99/gallon in 2010 is expected to average \$3.89/gallon in 2011 and \$3.93/gallon in 2012, down 9 and 14 cents/gallon, respectively from the previous estimate.

According to a SpendingPulse report released by MasterCard Advisors, US weekly gasoline demand fell 0.5% to a one month low of 9.116 million bpd in the week ending May 6<sup>th</sup>. Demand was 2.4% below a year ago, the ninth decline in the past 10 weeks. The four week demand averaged 9.21 million bpd, down 1.1% on the year. It reported that the US average retail price of gasoline increased by 9 cents to \$3.98/gallon, up 36.8% on the year.

Ship broker ICAP said the volume of oil products stored globally at sea fell by 27.3% to 18.85 million barrels in early May from early April. Products in storage fell from about 29.95 million barrels in early April, with the percentage of gasoil in floating tanks down to 45% from 52% a month earlier.

Several US Senators are proposing to repeal about \$2 billion in annual tax breaks given to large oil companies. The bill would cut several types of credits and deductions. Oil and gas firms have warned that gasoline prices would increase even more and energy production in the US would fall if the tax incentives are removed.

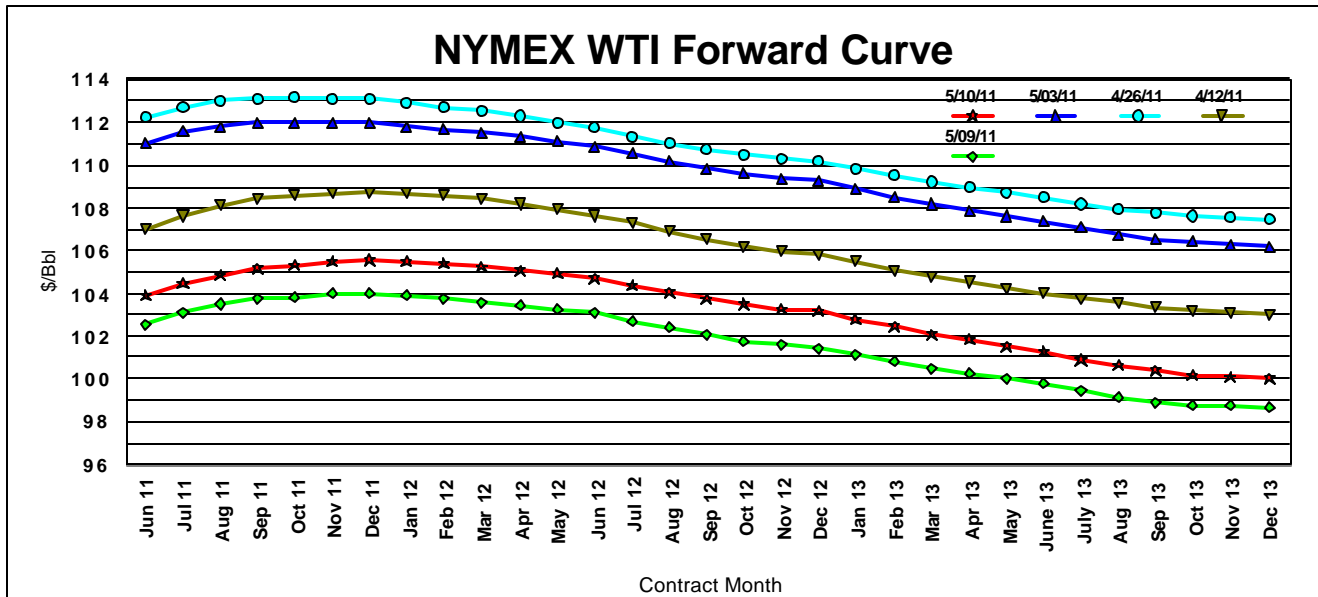
### Refinery News

Euroilstock reported that European refinery utilization rates in April fell 2.73% to 77.9%. Refiners' intake of crude was 3.4% lower than last April at 10.205 million barrels. It reported that total crude and oil product inventory in April increased by 0.5% on the month but fell by 2.1% on the year to 1.133 billion barrels. Crude oil stocks increased by 0.2% on the month but fell by 4.8% on the year to 471.95 million barrels while gasoline stocks fell by 1.3% on the month and by 0.2% on the year to 112.37 million barrels and distillate stocks increased by 1.5% on the month and by 2.2% on the year to 409.88 million barrels.

TransCanada Corp said its 591,000 bpd Keystone Pipeline will likely remain shut until the weekend. The pipeline was shut early Saturday following a 500 barrel spill at a North Dakota pumping station.

Motiva Enterprise LLC's 237,000 bpd refinery in Norco, Louisiana is preparing

**May  
Calendar Averages**  
**CL – \$105.32**  
**HO – \$3.0402**  
**RB – \$3.2633**



for a possible supply disruption due to rising water levels on the Mississippi River. The US Coast Guard is expected to make a decision soon about which flood gate to lower on the Mississippi River, which would determine the degree of impact on the refinery. Motiva is coordinating efforts to limit the impact on its customers to potentially move more products by rail and truck.

Citgo Petroleum Corp said it shut an unspecified unit at its refinery in Corpus Christi, Texas after it discovered a hydrocarbon vapor leak during routine maintenance.

Chalmette Refining reported a release of materials to the cooling water return due to a leak on the exchanger at the 192,500 bpd Chalmette, Louisiana refinery.

ConocoPhillips is in the process of restarting units that were affected by a power outage at its 247,000 bpd Sweeny, Texas refinery. The refinery experienced a power failure that caused several units to shut down.

Imperial Oil Ltd has taken some of the processing units at its Alberta refinery down for several weeks of planned maintenance. It started work on units at the 187,000 bpd Strathcona refinery on May 6<sup>th</sup>. Meanwhile, maintenance continues at Imperial's 112,000 bpd Nanticoke, Ontario refinery. The work started March 28<sup>th</sup>.

Venezuela's 645,000 bpd Amuay refinery is completely operational following a partial shutdown due to electrical problems last week. The refinery was partially shut on Friday.

A fire at Total's 331,000 bpd Gonfreville refinery in France halted operations at one of its distillation units. The fire started in the distillation unit Monday evening. It said its three other distillation units are still operating, limiting the impact on production.

Kuwait's Shuaiba refinery resumed operations on Saturday at 130,000 bpd after it was shut down for scheduled maintenance. It is expected to reach full capacity of 200,000 bpd in four days.

According to preliminary data from China's General Administration of Customs, China imported 5.24 million bpd of crude in April, the third highest level on record. It was up 1.7% on the year. It said China was a net importer of oil products in April after Sinopec halted spot exports to ensure enough gasoline and diesel was available to domestic consumers. The customs bureau said April oil product imports totaled 3.22 million tons while exports totaled 2.05 million tons.

## **Production News**

The four benchmark BFOE North Sea crude oil streams, Brent, Forties, Oseberg and Ekofisk, are scheduled to load about 1.083 million bpd in June, the lowest level scheduled for a year due to production problems. Four cargoes of North Sea Forties crude have been deferred this month due to problems in the Buzzard oilfield, reducing May BFOE loading to about 1.037 million bpd from 1.115 million bpd originally scheduled. The June loading program for North Sea Brent crude is scheduled at 120,000 bpd or 3.6 million barrels, down from 154,839 bpd or 4.8 million barrels. The June loading program for North Sea Forties Blend crude is scheduled at 480,000 bpd or 14.4 million barrels, up from 445,161 bpd or 13.8 million barrels in May. The June program for North Sea Oseberg crude is scheduled at 140,000 bpd or 4.2 million barrels, up from 116,129 bpd or 3.6 million barrels in May. The June loading program for Ekofisk crude is scheduled at 343,333 bpd or 10.3 million barrels, up from 319,355 bpd or 9.9 million barrels in May.

Traders said Yemen's crude oil production loss may reduce supplies to Asia and lift sentiment for medium grades when spot trading for July loading cargoes start this week. Nexen Inc halted output on Sunday at the Masila and Block 51 fields in Yemen due to labor action. It did not say how long the outage would last.

Russia's Energy Ministry reported that the country's oil production in April stood at 10.24 million bpd, up from 10.19 million bpd in March. It reported that exports via pipeline monopoly Transneft increased by 0.8% to 4.46 million bpd from 4.42 million bpd in March.

ExxonMobil Production Co announced that drilling and construction have started on an enhanced oil recovery project at the Means Field in Andrews County, Texas. The first phase of the project has the potential to recover as much as 5 million barrels of additional oil. ExxonMobil discovered the Means field in the early 1930s and since then it has produced more than 300 million barrels of oil from the field.

India's Oil Minister S. Jaipal Reddy said an Indian ministerial panel, which was scheduled to discuss increasing fuel prices on Wednesday, is now scheduled to meet on May 17<sup>th</sup> or May 18<sup>th</sup>. India's Oil Ministry has recommended raising diesel prices by more than INR3 to INR4/liter.

Iraq's State Oil Marketing Organization said Iraq cut the official selling prices of its Basra Light and Kirkuk crude for June to European and US customers but increased the price of Basra Light crude bound for Asia. The price of Basra Light crude bound for Europe in June was cut by 55 cents to \$7.05/barrel below Dated Brent while Basra Light crude bound for the US was cut by 15 cents to \$2.10/barrel below the Argus Sour Crude Index and Basra Light crude bound for Asia was increased by 10 cents to 5 cents/barrel below the Oman/Dubai average. Kirkuk crude bound for Europe was set at \$4.75/barrel below Dated Brent and Kirkuk crude bound for the US was set at 25 cents/barrel above ASCI.

## **Market Commentary**

In what appears to be an effort by the CME Group to quell trading volatility in the energy markets, margins were raised late on Monday. Initial margins were raised an average of 25%, with crude oil going from \$6,750 to \$8,348, gasoline from \$7,763 to \$9,450 and heating oil from \$6,413 to \$8,438. This sparked an overnight sell-off. Problem plagued refineries combined with a higher equities market to prop up prices. With the possibility of flooding along the Mississippi River causing difficulty in moving crude oil and gasoline along the Gulf Coast to other regions, some traders reversed earlier decisions to sell. The flooding became the main catalyst behind market movement, with gasoline settling 3 percent higher on the day. Prices tend to rise prior to the potential of disaster as market participants prepare for the worst. Should little damage occur, prices should fall off sharply. For now

we would continue to monitor the situation, expecting that prices will experience violent and choppy trading sessions.

Crude oil: June 11 290,599 -18,128 July 11 295,641 +24,297 Aug 11 81,058 +3,046 Totals 1,662,339 +16,892 Heating oil: June 11 90,059 -9,810 July 11 53,828 +3,889 Aug 11 30,662 +907 Totals 305,694 -2,633 Rbob: June11 83,647 -9,058 July 57,444 +840 Aug 11 26,989 -1,383 Totals 290,502 -9,776

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
9284	10845		31325		
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	

The information contained in this letter is taken from sources, which we believe to be reliable, but is not guaranteed by us as to accuracy or completeness and is sent to you for information purposes only. The Windham Group bases its market recommendations solely on the judgment of its personnel. Reproduction in whole or part or other use without permission is prohibited.