



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR MAY 11, 2010**

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In its monthly report, OPEC raised its estimate for world oil demand growth in 2010 for a third consecutive month. It said global demand growth will amount to 950,000 bpd in 2010, up 50,000 bpd from its previous forecast. World oil consumption this year is expected to increase by 180,000 bpd or 0.2% to 85.38 million bpd. It raised its forecast for demand for its crude by 40,000 bpd from last month to 28.85 million bpd in 2010. It is however still down 100,000 bpd from last year's level. OPEC also stated that members' production continued to increase in April. Members with output quotas, met only 51% of

the targeted 4.2 million bpd cuts in April, down from 52% in March. Total OPEC production, including Iraq, stood at 29.25 million bpd in April. OPEC reported that Venezuela increased its oil production by 25,000 bpd to 2.34 million bpd in April. OPEC also raised its forecast for production growth from other countries this year, with non-OPEC supply now seen at 530,000 bpd, up by 30,000 bpd from last month's report. In regards to refining margins, OPEC stated that margins are likely to remain capped throughout the summer due to persistent oversupply and excess refining capacity. It reported that US Gulf Coast refining margins against WTI increased by 78 cents to \$6.80/barrel in April from \$6.02/barrel in March. Margins for refining Brent crude in Northwest Europe's oil hub Rotterdam fell by 11 cents to \$1.77/barrel in April from \$1.88/barrel in March. In Europe,

#### **Market Watch**

The US Commerce Department reported that sales of US wholesalers increased for the third consecutive month in March to their highest level in eight months. Inventories increased by 0.4% on the month to a seasonally adjusted \$394.79 billion. It reported that sales of US wholesalers increased by 2.4% to a seasonally adjusted \$348.02 billion, the largest gain since November 2009.

US consumer confidence improved in May. Investor's Business Daily and TechnoMetrica Market Intelligence said their IBD/TIPP Economic Optimism Index increased to 48.7 in May from 48.4 in April. The index is just above its 12 month average of 48.5 and 4.3 points above its reading of 44.4 in December 2007 when the US economy entered recession.

The National Oceanic and Atmospheric Administration reported that much of Louisiana's coastline could see oil come ashore this week. It said moderately strong winds from the southeast of up to 20 knots may carry oil onshore west of Barataria Bay, along the Southwest Pass entrance to the Mississippi River and on the Chandeleur Islands off Louisiana's eastern coast. By Thursday, landfall may be possible further to the west around Oyster Bay.

Accuweather Inc forecaster Joe Bastardi predicted a strong 2010 Atlantic hurricane season. He forecast 16 to 18 named storms will develop in the Atlantic Ocean, with six to seven striking the US coast and as many as five of them strengthening into hurricanes, with two to three of those becoming major storms.

#### **API Stocks**

**Crude** – up 362,000 barrels  
**Distillate** – up 94,000 barrels  
**Gasoline** – down 906,000 barrels  
**Refinery runs** – down 2.5%, at 84.9%

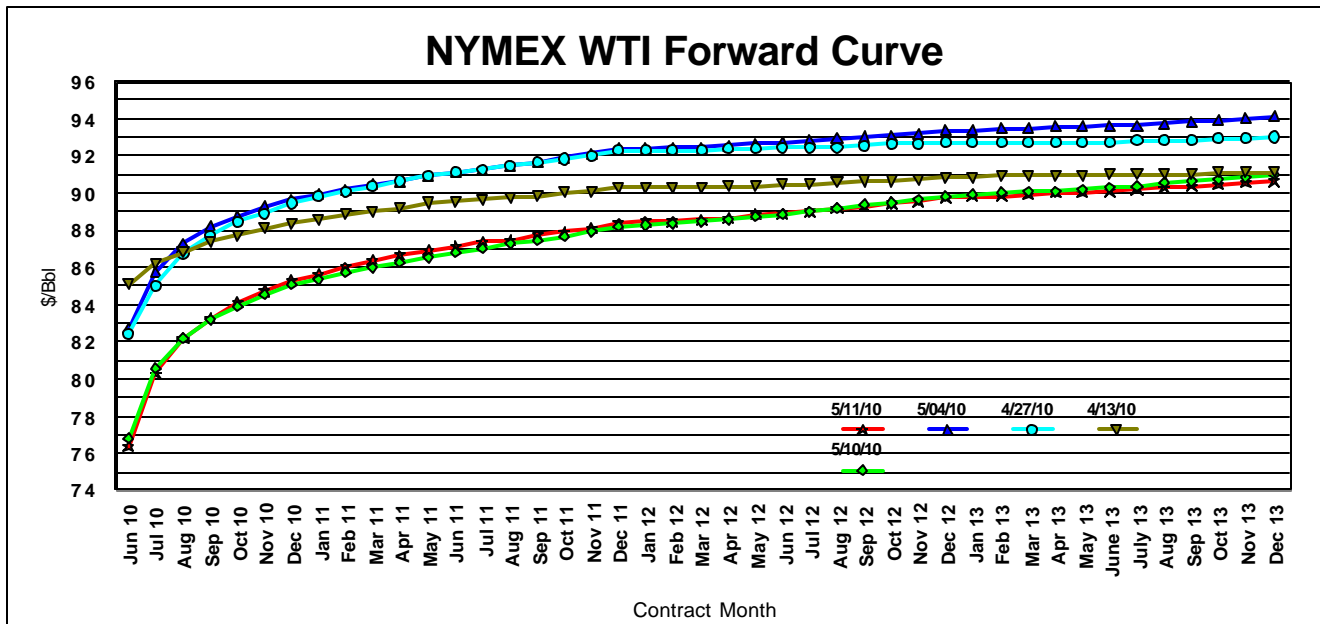
gasoline margins stood at \$14/barrel in April.

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|--------------------------|
| <b>May</b>               |
| <b>Calendar Averages</b> |
| <b>CL – \$79.18</b>      |
| <b>HO – \$2.1775</b>     |
| <b>RB – \$2.2324</b>     |

Kuwait's Oil Minister Sheikh Ahmad al-Abdullah al-Sabah said improving global financial markets following the euro zone's \$1 trillion rescue package gives OPEC no reason to call an extraordinary meeting before its scheduled meeting in October. Meanwhile, the chairman of Libya's National Oil Co, Shokri Ghanem said OPEC would call an emergency meeting if crude oil prices reach \$60/barrel. He also said would be a good idea to discuss whether to include condensate in the OPEC quotas. Condensate fuels are not currently included in OPEC quotas. Algeria's Oil Minister Chakib Khelil said an oil price in the \$60s would be uncomfortable for OPEC. He said Algeria needs an oil price of \$60 to balance its budget. He said the oil market is oversupplied but added that volatility is being driven by financial market concerns rather than supply and demand fundamentals.

In its latest Short Term Energy Outlook, the EIA increased its world oil demand growth estimate for 2010 by 100,000 bpd from its previous estimate to 1.6 million bpd while demand growth for 2011 is unchanged at 1.6 million bpd. World oil demand in 2010 is expected to total 85.55 million bpd, up 50,000 bpd from its previous report while demand in 2011 is expected to increase to 87.16 million bpd, up 50,000 bpd from its previous report. The EIA reported that the increase in world oil demand will be led by China. In 2010, China's oil demand is expected to average 8.78 million bpd, up 6.8% or 560,000 bpd from a year ago and 0.3% more than the April forecast. It reported that non-OPEC supply is estimated to increase by 660,000 bpd to 51.09 million bpd, up 0.41% from its previous estimate. The EIA projects that OPEC will gradually increase its oil production over the forecast period. OPEC crude oil production is estimated to increase by 340,000 bpd to 29.44 million bpd in 2010, up 0.14% from its previous estimate while OPEC production in 2011 is expected to increase by 570,000 bpd to 30.01 million bpd, down 0.07% from its previous forecast. The EIA estimates that commercial oil inventories held in OECD countries stood at 2.7 billion barrels at the end of the first quarter of 2010. It is equivalent to 58 days of forward supply and 95 million barrels more than the 5 year average. In regards to US oil demand, the EIA reported that total oil demand is expected to increase by 150,000 bpd to 18.84 million bpd, unchanged from its previous forecast while demand in 2011 is expected to increase by 270,000 bpd to 19.11 million bpd, up 0.26% from its previous forecast. Gasoline demand in 2010 is expected to increase by 40,000 bpd to 9.03 million bpd, unchanged from its previous forecast while demand in 2011 is expected to increase by 70,000 bpd to 9.11 million bpd, up 0.11% from its previous estimate. Distillate demand in 2010 is estimated to increase by 10,000 bpd to 3.64 million bpd, up 0.28% from its previous forecast while demand in 2011 is estimate to increase by 80,000 bpd to 3.72 million bpd, up 0.27% from its previous forecast. Domestic crude oil production is expected to increase by 190,000 bpd to 5.51 million bpd in 2010 while production in 2011 is expected to fall by 20,000 bpd to 5.49 million bpd. Projected ethanol production, which averaged 700,000 bpd in 2009, increased to an average of 840,000 bpd in 2010 and to 850,000 bpd in 2011. In regards to prices, the EIA expects WTI prices to average about \$84/barrel during the second half of year, rising to \$87/barrel by the end of next year. The EIA estimates that gasoline retail prices will average \$2.94/gallon during the summer driving season, up from \$2.44/gallon last summer. It expects gasoline prices to average \$2.86/gallon in 2010 and \$2.98/gallon in 2011. Diesel prices are expected to average \$3.05/gallon in 2010 and \$3.20/gallon in 2011.

According to a SpendingPulse report by MasterCard Advisors LLC, US gasoline demand increased by 1.4% on the week to 9.343 million bpd in the week ending May 7<sup>th</sup>. Demand was up 117,000 bpd or 1.3% on the year. Gasoline demand in the latest four weeks was down 0.5% or 45,000 bpd on the year at 9.309 million bpd. It reported that the US average retail price of gasoline increased by 5 cents to \$2.91/gallon on the week.



According to Euroilstock, total oil and product stocks in 16 European countries increased by 0.9% on the month and by 0.6% on the year to 1.161 billion barrels in April. Crude oil stocks in April increased by 2.3% on the month but fell by 0.3% on the year to 489.83 million barrels while gasoline stocks fell by 3.9% on the month and by 2.7% on the year to 113.82 million barrels. Middle distillate stocks increased by 0.7% on the month and by 2.9% on the year to 412.88 million barrels while fuel oil stocks fell by 1.9% on the month and by 8.3% on the year to 105.63 million barrels. Refinery utilization stood at 80.13% in April, up from 80.05% in March.

US Secretary of the Interior Ken Salazar said he would urge Congress for more funding and new authority to review oil exploration as part of the Obama administration's response to the oil spill in the Gulf of Mexico. He said he would request \$29 million in additional funding for increased inspections and enforcement of environmental regulations. He said he would also seek legislation to expand to 90 days from 30 days the period in which regulators review oil-exploration plans. In response to the BP oil spill, he said that the Minerals Management Service, which oversees offshore drilling will be split to separate the collection of oil royalties from safety inspection duties. There is no timeline for when this will occur but a department spokesman said it would likely take place after the government's investigation of the rig accident is over.

### **Refinery News**

Valero Energy Corp said it expects a coker unit at its 315,000 bpd Corpus Christi, Texas refinery to resume operations early next week after the 20,000 bpd was shutdown due to a flange fire on Monday. Meanwhile, a fluid catalytic cracking unit at Valero's 195,000 bpd refinery in Memphis, Tennessee has resumed planned rates after work was completed.

Marathon Oil Corp said two employees were injured slightly in a boiler incident on Tuesday at its 280,000 bpd Garyville, Louisiana refinery. General operations at the refinery were not impacted by the incident.

Venezuela's PDVSA said its 104,000 bpd fluid catalytic cracking unit at its 300,000 bpd Cardon refinery began a restart process on Tuesday after a fire forced it to shutdown in April. The unit is expected to resume full operations in the next 48 to 72 hours.

Japan's Nippon Oil plans to permanently halt crude refining on May 19<sup>th</sup> at its 24,000 bpd No. 1 crude distillation unit at its Oita refinery. It also plans to shut the 136,000 bpd No. 3 CDU at the Oita refinery for scheduled maintenance from May 19<sup>th</sup> to June 17<sup>th</sup>.

China's National Bureau of Statistics reported that China's refinery crude throughput in April increased by 17.1% on the year to a record high of 8.37 million bpd. China's overall crude runs in the first four months of the year increased by 20.7% on the year to 134.8 million tons or 8.2 million bpd. It reported that domestic crude oil output increased by 4.2% on the year to 16.26 million tons or 3.96 million bpd in April. It reported that China's natural gas output increased by 11.7% on the year to 7.62 billion cubic meters last month.

China's apparent oil demand grew for the eighth consecutive month in April. The implied oil demand increased by nearly 13% on the year in April. China's demand in April increased as China imported a record 5.15 million bpd of crude and processed the highest level of crude on a daily basis last month.

China's Sinopec Corp started building a 20 million barrel crude storage unit in the northern Chinese port of Tianjin. The tank farm is expected to be completed in two years.

Taiwan's Bureau of Energy reported that Taiwan's total oil product demand in March increased by 16.9% on the year to 4.605 million kiloliters of oil equivalent. It also reported that gasoline demand fell by 10.3% on the year to 657,390 kiloliters while diesel demand fell by 4% on the year to 415,589 kiloliters. Crude oil imports increased by 13% on the year to 4.068 million kiloliters.

### **Production News**

Norway's North Sea Gullfaks crude stream is scheduled to load about 228,000 bpd in June, up from 193,000 bpd in May. The North Sea Troll crude stream is scheduled to load 213,000 bpd in June, unchanged on the month.

Norway's Oil and Energy Ministry reported that the country's oil production, including natural gas liquids and condensate, will fall to 2.2 million bpd in 2010, down 4.5% on the year.

Qatar's Oil Minister Abdullah al-Attiyah said the country's condensate output is expected to reach 750,000 bpd in 2014 from a current level of 350,000 bpd.

The Brazilian unit of Royal Dutch Shell discovered oil in a well drilled at the Nautilus field in the offshore BC-10 block. Shell estimates the block holds 400 million barrels of recoverable oil.

Iraq's Deputy Oil Minister Abdul Kareem Luaibi said a deal between Iraq's central government in Baghdad and its semiautonomous northern Kurdish region to restart oil exports could come within days.

Iraq's State Oil Marketing Organization said Iraq increased the official selling price of Basra Light crude to US buyers for June by 15 cents to \$1.55 below the Argus benchmark. The price of Kirkuk bound for the US was cut by 5 cents to a premium of 15 cents over the Argus benchmark. The price of Basra Light crude bound for Europe was cut by 10 cents to a discount of \$4.80 to the BFOE while the price of Kirkuk crude bound for Europe was cut by 30 cents to a discount of \$3.30 to the BFOE. The June price for Basra Light crude bound for Asia was increased by 10 cents to a discount of \$1.05 to the Oman/Dubai average.

OPEC's news agency reported that OPEC's basket of crudes increased to \$78.08/barrel on Monday from \$76.41/barrel on Friday.

## **Market Commentary**

Refinery problems at Valero's 315,000 bpd Corpus Christi coker unit and Marathon's 280,000 bpd Grayville, LA refinery, coupled with an increase in demand forecasts by OPEC, pushed products higher, widening out the crack spreads. Gasoline also gained strength on reports that European stock levels were lower in April compared to those of last year. Crude oil found early strength from reports that Chinese refining reached record highs in April, a sign that demand in that region is holding steady. A weak euro currency and falling equities markets contained crude oil price rises. As to direction, this market appears to be struggling with investor interest and the true underlying fundamentals. Last week's sell-off decreased investor interest and the question remains as to whether or not interest will reappear. In the meantime, market participants await this week's inventory numbers, which are calling for an average of a 1.7 million barrel increase in crude oil, a 700,000 increase in gasoline and an increase of 1.2 million barrels in heating oil. We would look for prices to remain economically sensitive as they try to determine direction, buying and selling against the listed support and resistance numbers.

Crude oil June 10 293,209 -35,188 July 10 272,211 +27,979 Aug 10 98,276 +372 Totals 1,462,043 -12,539 Heating oil June 10 76,906 -8,207 July 10 53,371 +3,205 Aug 10 29,523 +1,150 Totals 317,009 +412 Gasoline June 10 78,243 -9,219 July 10 64,363 +2,306 Aug 10 33,761 -405 Totals 287,310 -6,368.

The API reported a smaller than expected build in crude stocks of 362,000 barrels on the week. It reported builds in Padd 1 and 2 of 1.325 million barrels and 1.706 million barrels, respectively while stocks in Padd 3 fell by 3.636 million barrels. It reported the small build as runs fell by 507,000 bpd to 14.446 million bpd. Imports however fell by 1.412 million bpd to 8.388 million bpd. Distillate stocks also saw a smaller than expected build of 94,000 barrels as apparent demand increased by 9.5% to 4.458 million bpd on the week. The API however reported that distillate production increased by 151,000 bpd or 3.7% on the week to 4.238 million bpd while imports increased by 53,000 bpd or 29.48% on the week to 233,000 bpd. Meanwhile gasoline stocks unexpectedly fell by 906,000 barrels on the week. The API reported the draw as apparent demand increased by 5.7% on the week to 9.392 million bpd. It reported that gasoline production fell by 16,000 bpd or 0.2% on the week to 9.013 million bpd while imports increased by 94,000 bpd or 60.3% on the week to 250,000 bpd.

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|---|--|
| <b>Crude Support</b>  | <b>Crude Resistance</b>  |
| 74.55, 72.60, 71.31, 70.70, 69.50, 65.05, 64.70, 63.38, 62.70, 61.61, 60.95 | 78.81, 79.15, 79.75, 80.38, 81.65, 82.80, 87.85, 88.80, 89.10, 89.88 |
| <b>Heat Support</b>   | <b>Heat resistance</b>   |
| 2.0568, 2.0180, 1.9975, 1.9860, 1.8570, 1.8280, 1.7670, 1.7565              | 2.1760, 2.1920, 2.3575, 2.4200, 2.4940                               |
| <b>Gasoline support</b>   | <b>Gasoline resistance</b>   |
| 2.0954, 2.0660, 2.0420, 1.9970, 1.9862, 1.8650                              | 2.2260, 2.3240, 2.4270, 2.4850, 2.5040, 2.5115, 2.7080               |

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