



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR MAY 12, 2010

OPEC Secretary General Abdullah al-Badri said he believed the \$1 trillion euro zone rescue package would work. The European Union announced earlier this week a bailout for the block's debt stricken nations.

The IEA said global oil demand growth this year will be slightly slower than previously expected. It cut its forecast by 50,000 bpd to 1.62 million bpd from its previous estimate. The IEA expects world demand to grow to 86.4 million bpd this year, up from 84.8 million bpd last year. The IEA also said OECD oil stocks increased to 60.5 days of forward

Market Watch

US crude futures traded at their largest discount to London Brent crude since February 2009, as crude stock in Cushing, Oklahoma reached another record high. Stocks at the Cushing hub now stand at a record 37 million barrels. Capacity at the hub is currently at least 53 million barrels.

The EIA will start publishing bi-annual data on crude oil and product storage capacity in November, providing data for individual regions and the Cushing, Oklahoma hub. It said it will start surveys to tally the amount of crude and product storage available at terminals in each Padd and will break out specific figures for Cushing in bi-annual reports.

Trade sources said several cargoes of No. 2 heating oil are seen leaving the US Gulf Coast for South America with the final destination of North Africa and the Middle East.

The US Commerce Department reported that the US trade deficit widened in March to its highest level since December 2008. The US deficit in international trade of goods and services increased by 2.5% to \$40.42 billion from a downwardly revised \$39.43 billion in February. For the first quarter, the US Commerce Department reported a \$116.8 billion trade gap, up from \$92.22 billion during the same period a year earlier. The US bill for crude imports in March increased to \$22.26 billion, the highest amount since October 2008 from \$17.74 billion the previous month.

The White House praised US Senators John Kerry and Joe Lieberman for a climate change and energy bill they are introducing in the Senate and promised to work to pass it into law.

The ICE reported that a total of 1,419 lots or 141,900 metric tons of gasoil was physically delivered against the expiry of the ICE May gasoil contract. A total of 206,400 tons of gasoil was delivered in April.

Russia's Finance Ministry is likely to increase its oil export duty in June to between 4291 and \$294/ton from the current level of \$284/ton. Export duties on light refined products, such as gasoline and gas oil, are likely to total \$208-\$210/ton, up from the current level of \$203.70/ton. On heavy refined products, such as fuel oil, the export duties are expected to increase to \$112-\$113/ton, up from \$109.70/ton in May.

Greek unions announced that they would stage a 24 hour nationwide strike on May 20th, the second major protest against austerity measures pledged in exchange for billions of euros in aid. The austerity measures are expected to keep the economy in recession through 2011. The country's socialist government on Monday announced a draft law to increase the average retirement age and cuts benefits.

DOE Stocks

Crude – up 1.949 million barrels
Distillate – up 1.396 million barrels
Gasoline – down 2.814 million barrels
Refinery runs – down 1.2%, at 88.4%

supply at the end of March from 59.9 days at the end of February. It cut its estimate for OPEC crude demand for 2010 by 400,000 bpd to 28.7 million bpd. The IEA reported that Venezuela's oil production in April totaled 2.25 million bpd, unchanged on the month. It estimated that the volume of oil products in floating storage globally fell by 12 million barrels to 40 million barrels at the end of April from March. The IEA

stated that the ash cloud formed by an Icelandic volcano cut about 10 million barrels of jet fuel demand in April due to flight disruptions. Grounded flights resulted in about 1.2 million bpd in lost demand over an eight day period. In regards to refinery runs, the IEA stated that global refinery runs are expected to increase in the second quarter due to improved refining margins, increased Chinese output and the end of seasonal refinery maintenance. It forecast global crude throughput would reach 73.3 million bpd in the second quarter, up 450,000 bpd from the first quarter and 1.3 million bpd on the year. Separately, the IEA stated that Iran's crude surplus may increase in the coming weeks on weak demand for heavier grades, high price formulas and the threat of further sanctions. It cites estimates of unsold Iranian crude held in floating storage ranging between 30 million and 38 million barrels by early May, about double the amount held at the end of March. The IEA also stated that the effects of the Greek debt crisis will cut European oil and gas demand and cut gas consumption even more from current levels, which are at the weakest level since 1999. It added that oil prices at \$80/barrel and above would cut oil demand.

The US said Secretary of State Hillary Clinton and China's state councilor, Dai Bingguo acknowledged good progress in discussions on new sanctions against Iran. State Department spokesman Philip Crowley said the US Secretary of State and China's state councilor spoke by phone on Tuesday, discussing both Iran and North Korea. They discussed a couple of technical issues in drafting the UN sanctions resolution and pledged that both sides would continue to work hard with Britain, France and Russia to resolve remaining questions.

Refinery News

ConocoPhillips' CEO said refining margins have improved so far in 2010. He said the company sees long term oil prices of \$80 to \$100/barrel. He also stated that the oil spill in the Gulf of Mexico is not expected to disrupt its refining operations.

Motiva Enterprises' 285,000 bpd refinery in Port Arthur, Texas resumed operations following a brief power failure early on Wednesday. Earlier it stated that it planned to restart on Wednesday a delayed coking unit at its Port Arthur refinery that started on April 28th.

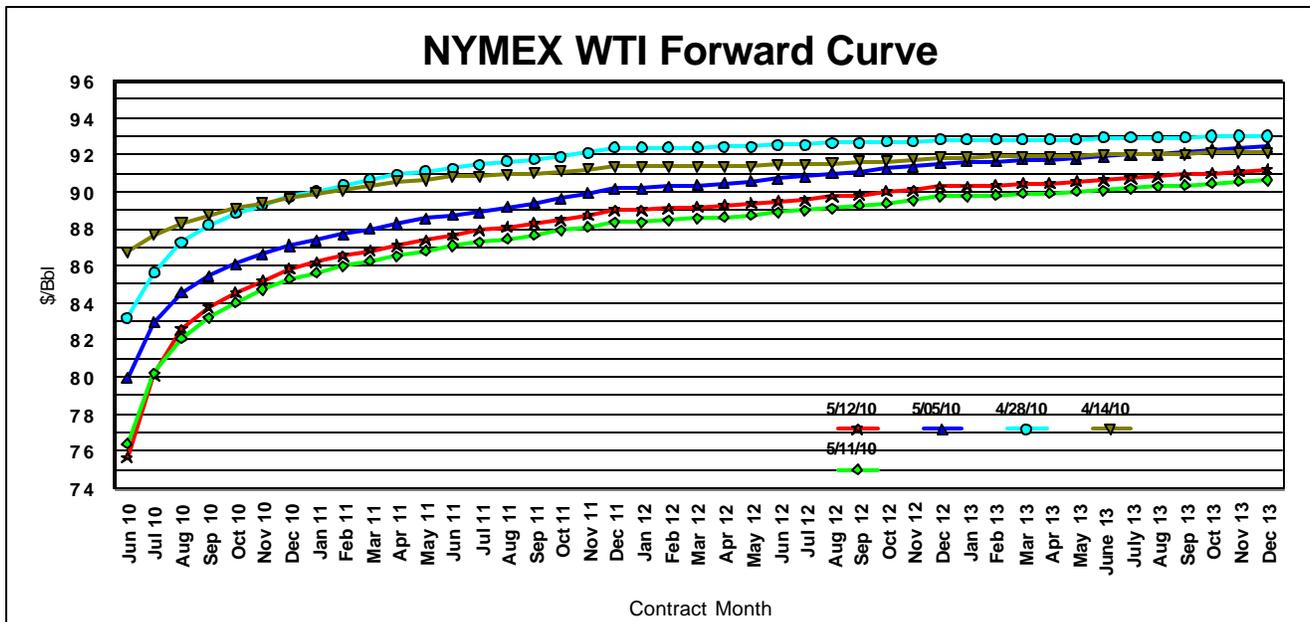
Venezuela's PDVSA said it was planning maintenance and expansion at its Petromonagas oil upgrader for late 2011 or early 2012 that would last 45 days. It said major maintenance at its 130,000 bpd Petroanzoategui upgrader, scheduled for the first quarter of next year would last 15 days.

Qatar's Oil Minister Abdullah bin Hamad al-Attiyah said plans for the Al Shaheen refinery have been put on hold while phase two expansion of its Ras Laffan condensate refinery is expected to proceed.

Japan Energy Corp shut its 63,500 bpd condensate splitter at its Kashima refinery for planned maintenance on Wednesday until June 22nd. It is also expected to shut its 210,000 No. 1 crude distillation unit on May 15th until July 3rd.

India's Mangalore Refinery and Petrochemicals Ltd is expected to shut an 80,000 bpd crude unit for 14 days from May 15th for maintenance. It is also expected to shut a 1.4 million ton hydrocracker unit for 30 days starting on May 18th.

<p>May Calendar Averages CL – \$78.74 HO – \$2.1752 RB – \$2.2297</p>



According to Wood Mackenzie, oil demand in China will grow at an average daily rate of 540,000 barrels each year. Diesel will account for more than 40% of the overall growth or 230,000 a year over the next 10 years on increasing commercial transport demand. Gasoline demand is expected to grow at an annual rate of about 80,000 bpd in line with China's increasing car population. China is expected to continue importing oil products in the next decade as its demand growth is likely to surpass production.

The Petroleum Association of Japan reported that the Japan's crude inventories in the week ending May 8th increased by 1.49 million barrels on the week but fell by 10.2 million barrels on the year to 93.89 million barrels. Japan's gasoline inventories increased by 80,000 barrels on the week and by 2.14 million barrels on the year to 15.29 million barrels while kerosene stocks built by 1.11 million barrels but fell by 1.06 million barrels on the year to 9.69 million barrels and naphtha stocks fell by 630,000 barrels on the week to 9.6 million barrels. Crude runs increased by 50,000 bpd on the week and by 180,000 bpd on the year to 3.69 million bpd. Japanese refinery utilization rates increased by 1% on the week and by 4.2% on the year to 77% of capacity. The PAJ also reported that total oil product sales fell by 25.4% on the week and by 33.4% on the year to 2.28 million bpd. Japan's gasoline sales increased by 3.6% on the week but fell by 13.3% on the year to 1.06 million bpd while kerosene sales fell by 46.4% on the week and by 42.5% on the year to 170,000 bpd and gas oil sales fell by 39.7% on the week and by 40.1% on the year to 340,000 bpd. Japan's naphtha sales fell by 18% on the week and by 10% on the year to 410,000 bpd while jet fuel sales increased by 106.7% on the week but fell by 55.8% on the year to 102,000 bpd.

An official at Indonesia's Mines and Energy Ministry said the country plans to cut the supply of subsidized fuel in the domestic market this year in a bid to reduce the cost of subsidies.

Germany's MWV reported that total sales of oil products in Germany fell by 13.1% on the year in April to 5.73 million metric tons. It reported that heating oil sales fell by 40.2% on the year to 1.04 million tons while its diesel sales fell by 0.8% on the year to 2.63 million tons and gasoline sales fell by 4.6% to 1.67 million tons.

Gasoline inventories in independent storage in the Amsterdam-Rotterdam-Antwerp area in the week ending May 12th fell by 11.29% on the week but increased by 20.15% on the year to 817,000 tons

while gas oil stocks increased by 4.91% on the week and by 1.05% on the year to 2.607 million tons and fuel oil stocks increased by 24.06% on the week and by 69.16% on the year to 861,000 tons. Naphtha stocks increased by 54% on the week and by 63.83% on the year to 77,000 tons while jet fuel stocks increased by 18.64% on the week and by 14.66% on the year to 821,000 tons.

Production News

ExxonMobil confirmed its Nigerian unit had declared force majeure on Qua Iboe crude oil shipments due to damage to a pipeline. It said it declared a force majeure due to the difficulty in meeting projected liftings due to repair work on a section of a pipeline. It does not know how long repairs will take to complete.

Iraq will supply crude to at least two Asian buyers at about 10% below contract volumes for June. The cut was on medium heavy Basrah Light crude. Oil output and exports from Iraq fell last month due to repeated attacks against the Kirkuk-Ceyhan export pipeline and possible pumping problems in Basra fields.

The Norwegian Petroleum Directorate stated the country's oil production fell to 1.9 million bpd on average in April from 1.91 million bpd in March. Norway's production of natural gas liquids and condensate fell to 334,000 bpd in April from 354,000 bpd in March. Norway's gas production fell to 8.5 billion standard cubic meters in April from 10.5 billion cubic meters in March.

Brazil's National Petroleum Agency, or ANP, said the Franco prospect holds recoverable reserves of 4.5 billion barrels of crude. Under the government's capitalization plan, Petrobras will receive the rights to explore and produce 5 billion barrels of crude as part of a government infusion of capital into the company.

Ecuador's central bank reported that the country exported 29.34 million barrels in the first three months of the year, down 2% from 29.83 million barrels last year.

The National Iranian Oil Co set its Iranian Light crude price bound for Northwest Europe for June loading at BWAVE minus \$4.30, unchanged on the month while its Iranian Heavy crude price was cut by 20 cents to BWAVE minus \$5.35 and its Forozan crude price was cut by 20 cents to BWAVE minus \$5.30. The price of its Iranian Light crude bound for the Mediterranean was cut by 40 cents to BWAVE minus \$5.90, the price of its Iranian Heavy crude was cut by 50 cents to BWAVE minus \$7.55 and the price of its Forozan crude was cut by 50 cents to BWAVE minus \$7.50. The price of its Iranian Light crude bound for Asia was increased by 30 cents to the Oman/Dubai average plus 40 cents, the price of its Iran Heavy crude was increased by 10 cents to the Oman/Dubai average minus \$1.50 and the price of its Forozan crude was increased by 10 cents to the Oman/Dubai average minus \$1.45.

OPEC's news agency reported that OPEC's basket of crudes fell to \$77.53/barrel on Tuesday, down from Monday's \$78.08/barrel level.

Market Commentary

With inventory levels at Cushing reaching their highest level since April 2004, when the Energy Department started keeping records, the June/July crude oil spread widen out as far as -\$4.67. Brent futures, which typically trade at a discount to WTI, traded as wide as \$5.22 a barrel premium, the widest level since February of 2009. Stock levels at Cushing have helped to push Brent over the WTI. The deep discount of the June contract continues to make the storing of crude oil to sell at a later date financially attractive. The movement in the dollar and the global economic situation have been the main movers of this market recently however, the underlying fundamentals cannot continue to be ignored. We are still awash in crude oil that doesn't appear to be going anywhere anytime soon. We

are beginning to see some movement in demand but this is slight compared to supplies. Gasoline inventories caught market participants by surprise, decreasing by 2.81 million barrels when expectations were calling for an increase of 400,000 barrels. This gave strength to the 3-2-1 crack spread, with the June 3-2-1 widening out to \$16.7254 a barrel. This is the highest level for this spread since February of 2009. Refiners are delighted with the spread this wide and will be looking to take their profits. We should start to see operational capacity increase based upon this. We would look for the June crude oil contract to continue to slip, looking for a test at the recent low of \$70.75.

Crude oil June 10 261,212 -31,997 July 10 300,111 +27,900 Aug 10 102,802 +4,526 Totals 1,470,234 +8,191 Heating oil June10 71,376 -5,530 July 10 54,752 +1,381 Aug 10 31,063 +1,540 Totals 316,835 -174 Gasoline June 10 73,539 -4,704 July 10 66,811 +2,448 Aug 10 34,049 +288 Totals 282,428 -4,882.

Crude Support	Crude Resistance
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
Heat Support	Heat resistance
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
Gasoline support	Gasoline resistance
2.0954, 2.0660, 2.0420, 1.9970, 1.9862, 1.8650	2.2345, 2.3240, 2.4270, 2.4850, 2.5040, 2.5115, 2.7080