



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR MAY 12, 2011

The IEA said in its latest monthly report that high oil prices are cutting demand growth, particularly in the US. It however said that prolonged supply disruptions mean the market would remain tight in the second half of 2011 and the "bull run" in prices may continue. It said that if OPEC did not increase its production, the reduction in oil stocks that would be required by the end of the summer to meet demand would be detrimental to market stability. The IEA cut its forecast for 2011 oil demand growth by 190,000 bpd to 1.3 million bpd on persistent high

**May
Calendar Averages
CL – \$103.82
HO – \$3.0104
RB – \$3.2256**

Market Watch

The US Labor Department said US producer prices continued to increase in April amid increasing energy costs. The Producer Price Index increased by a seasonally adjusted 0.8% in April. It followed a 0.7% increase in March. The gain in April was driven by a 2.5% increase in energy costs, including a 3.6% increase in gasoline prices. The core PPI increased by 0.3% in April for the second consecutive month.

The US Labor Department said new claims for unemployment benefits fell last week by 44,000 to a seasonally adjusted 434,000 in the week ending May 7th. The prior week's figure was revised to 478,000 from an originally reported 474,000. The four week moving average of new claims increased by 4,500 to 436,750 in the week ending May 7th. The Labor Department said the number of continuing unemployment benefit claims increased by 5,000 to 3,756,000 in the week ending April 30th. The unemployment rate for workers with unemployment insurance was 3% in the week ending April 30th, unchanged on the week.

The US Commerce Department said US businesses stocked up on goods in March as their sales increased. Inventory held by manufacturers, retailers and wholesalers increased by 1% to \$1.477 trillion. Sales by businesses in the US increased by 2.2% in March to \$1.2 trillion, the largest increase since March 2010 when sales increased by 2.4%. The inventory/sales ratio in March fell to 1.23 from 1.24 in February. The Commerce Department also reported that sales of US retailers increased in April less than expected. US retail and food services sales increased by 0.5% on the month to \$389.36 billion. Sales in March were revised up, increasing by 0.9% instead of the previously estimated 0.4%.

The European Union's statistics office Eurostat said Euro zone industrial production fell 0.2% in March against February for a 5.3% year on year increase. It fell due to declining output of capital goods, energy and non-durable consumer goods.

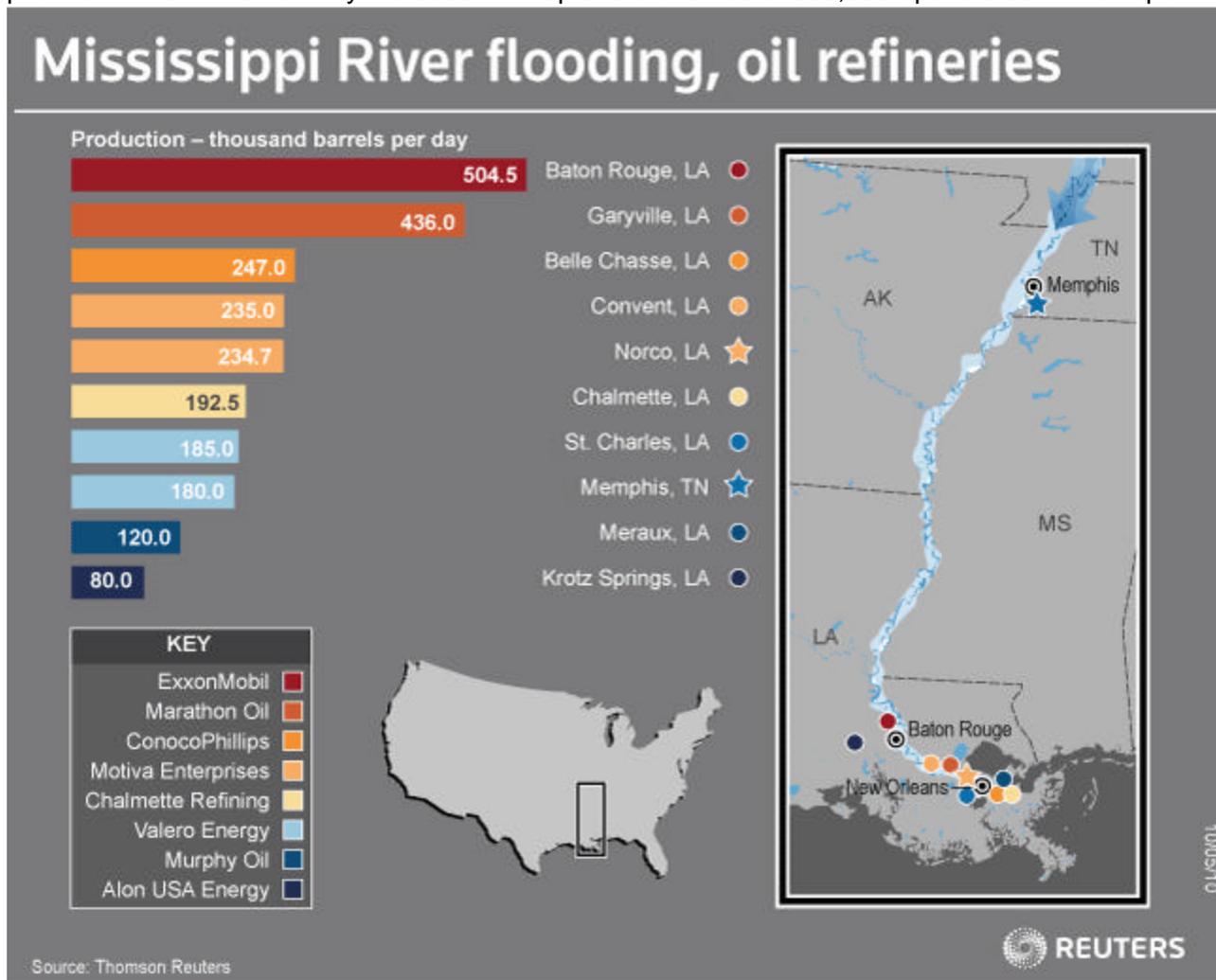
The IMF said euro zone periphery members need reform efforts to prevent the debt crisis from spreading and urged the European Central Bank to hold off from increasing interest rates. It warned the stakes were high in the ongoing euro zone debt crisis and called for aggressive and comprehensive policy action to deal with the problems.

China's central bank said it would increase banks' reserve requirement ratio by 0.50 percentage point, the fifth such increase this year, in a move to address inflation. The increase, which takes effect May 18th, comes after the country's consumer price index increased 5.3% in April, slightly slower than the 5.4% increase in March.

Platts said unscheduled changes to the loading program of North Sea Forties crude that have taken place in the last month are a cause for concern. Forties crude is the largest component of benchmark Brent crude, which is used to price more than half of the world's oil.

The IntercontinentalExchange said a total of 900 lots or 90,000 metric tons of gas oil was physically delivered against the expiry of ICE May gasoil futures. The volume is much lower than in April when 1,535 lots were delivered.

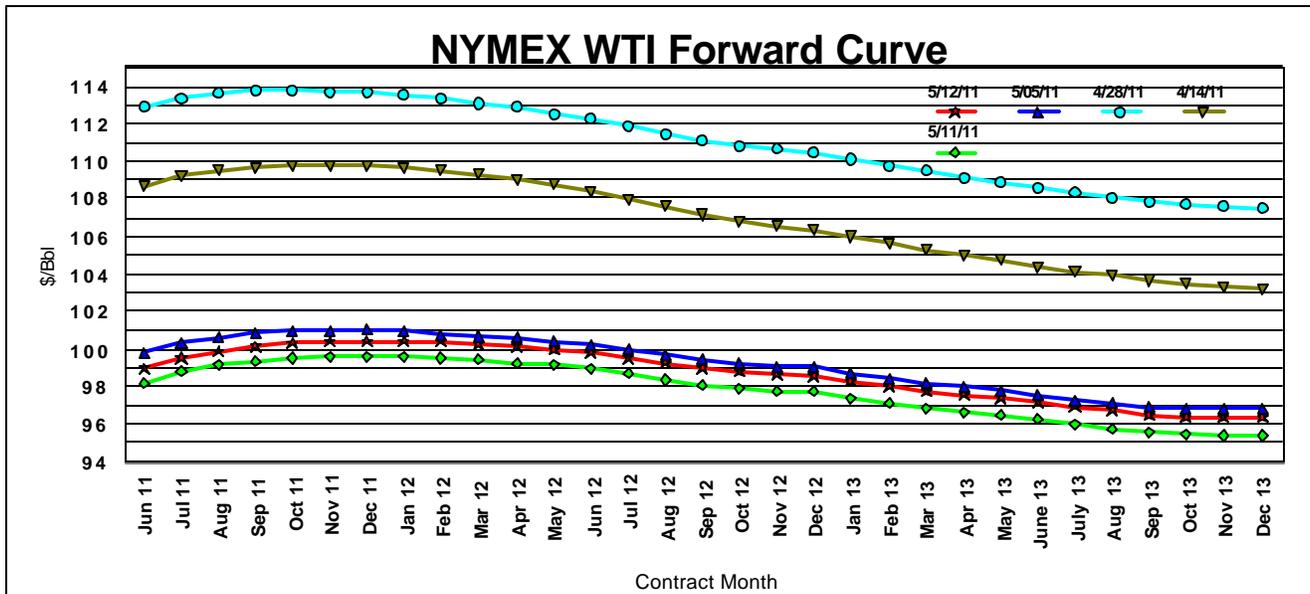
prices and weaker IMF GDP projections for advanced economies. Total 2011 oil demand would be 89.2 million bpd compared with 87.9 million bpd in 2010. The IEA said global oil refining output is set to increase sharply in May and June ahead of the summer driving season, after seasonal maintenance and weak margins held back refining activity in the first four months of the year. Crude runs are expected to increase by over 3.5 million bpd over the course of the summer as refiners increased activity to meet seasonally higher oil product demand and new capacity is brought on stream. Global refining runs averaged 74.2 million bpd in the first quarter, 385,000 bpd below the IEA's previous estimate but 1.7 million bpd above the same period a year ago. The IEA said Venezuela's oil production totaled 2.25 million bpd in April, down from 2.26 million bpd in March. In regards to China, the IEA said power shortages expected in China this summer could increase the use of diesel for electricity generation by as much as 300,000 bpd. China's demand for refined oil products in 2011 would likely increase at a rapid rate of 6.7% or 608,000 bpd to 9.68 million bpd.



Oil Movements stated that OPEC's oil exports, excluding Angola and Ecuador, would increase by 160,000 bpd to 22.75 million bpd in the four weeks ending May 28th.

ExxonMobil CEO and Chairman Rex Tillerson stopped short of blaming speculators for the rally in the oil market but told Congress that based only on the fundamentals of supply and demand, the price of oil should be in the range of \$60-\$70/barrel.

The House of Representatives voted to expand offshore oil drilling on Thursday as lawmakers take steps to respond to high gasoline prices. The measure requires the Obama administration to open up



areas known to have the greatest oil and natural gas reserves and make them available for leasing. It is the last of three bills that are aimed at speeding up and expanding offshore drilling.

Canada's Industry Minister Tony Clement said the government will ask the energy industry to explain why gasoline prices are high but added that it did not have a "magic wand" to bring relief to consumers. The government is very unlikely to intervene directly to curb prices that reached \$1.55/liter or more in some places, past highs seen in 2008.

The Libyan regime said NATO led air strikes hit Muammar Gaddafi's compound on Thursday, killing six people. NATO said NATO led aircraft carried out 46 strike sorties on Wednesday, including raids which took out four ammunition caches, four command and control facilities and two surface to air missile launchers in and around Tripoli and one launcher near Msrata. Meanwhile, Libyan rebel leader Mustafa Abdul Jalil said Muammar Gaddafi is a legitimate target for NATO forces.

The White House said leader of Libya's rebel forces seeking to oust Muammar Gaddafi are scheduled to visit the White House on Friday for their first official visit. Rebel leader Dr. Mahmoud Gibril and the delegation from the Libyan Transitional National Council are expected to meet with White House National Security Advisor Tom Donilon, senior administration officials and members of Congress. Libyan rebels have stated that they have less than two weeks of cash reserves to continue their battle against Gaddafi's forces.

The head of Bahrain's military said Saudi led forces would remain in Bahrain after a state of emergency is lifted next month in anticipation of any foreign threat. He warned protesters against returning to the streets. Bahrain is set on June 1st to lift martial law imposed in March after weeks of pro-democracy protests led mainly by Shi'ites calling for greater political freedoms, a constitutional monarchy and an end to sectarian discrimination.

Nigerian troops proceeded with an operation targeting a group of militants in the country's main oil producing region after the two sides exchanged gunfire on Wednesday. The military declined to provide details on the operation targeting the militants in an area of Delta state in the Niger Delta region and it was unclear whether there were any casualties.

UN investigators said in a report that international sanctions were slowing Iran's nuclear program. It said Iran has repeatedly sought to breach an arms embargo by shipping weapons to Syria. Six of the nine violations of a UN ban on conventional arms shipments by Iran involve Syria. Iran is believed to

be coming close to exhausting its supply of uranium oxide and it may therefore be seeking new sources of uranium to expand its enrichment. The report said international embargoes, assets freezes and travel bans have clearly forced changes in the way in which Iran procures items.

Refinery News

Heavy flooding in the US Midwest continued to shut Ohio River terminals, limited barge movements and threatened to disrupt refinery operations along the Mississippi River to the Gulf of Mexico on Thursday. The Mississippi River set a record high water level at Natchez, Mississippi on Wednesday, days before it is expected to crest in the southern city. There are 10 refineries located along the Mississippi River that can process 2.4 million bpd or 13.7% of the country's refining capacity. Valero Energy Corp's and Motiva Enterprises refineries in St. Charles Parish, Louisiana would be flooded if the Morganza Spillway is not opened. The US Army Corp of Engineers was planning to open the Morganza spillway by early next week, which would send flood waters from the Mississippi to the Atchafalaya River, likely disrupting operations at Alon USA Energy's 80,000 bpd Krotz Springs, Louisiana.

ExxonMobil continues to operate its 504,500 bpd Baton Rouge and 192,500 bpd Chalmette, Louisiana refineries normally while undertaking protective measures against potential flooding. The Parish Homeland Security and Emergency Office said water levels in the Parish have reached 43.1 feet as of Thursday morning. Water levels are projected to increase to 47.5 feet over the next 10 days.

Colonial Pipeline allocated Cycle 28 shipments on its Line 20 carrying distillates from Atlanta, Georgia to Nashville, Tennessee.

A power outage at Venezuela's refining complex in Paragana partially shutdown operations on Thursday. The power failure forced a complete shutdown of its Cardon refinery while operations at Amuay were partially affected. A spokesman at the workers' union did not say how long the facilities were expected to shutdown.

Argentine oil refinery workers started a nationwide strike on Thursday over pay. YPF, which accounts for about half the country's 600,000 bpd refining capacity said none of its plants were currently affected by the walkout.

Gasoline stocks held in independent storage in the Amsterdam-Rotterdam-Antwerp area in the week ending May 12th fell by 6.21% on the week and by 13.1% on the year to 710,000 tons. Gasoil stocks fell by 3.19% on the week but increased by 10.43% on the year to 2.879 million tons while fuel oil stocks fell by 15.28% on the week and by 20.79% on the year to 682,000 tons. Naphtha stocks increased by 22.45% on the week but fell by 22.08% on the year to 60,000 tons and jet fuel stocks fell by 18.52% on the week and by 35.69% on the year to 528,000 tons.

Singapore's International Enterprise reported that the country's residual fuel stocks fell by 780,000 barrels to 21.039 million barrels in the week ending May 11th. Singapore's light distillate stocks fell by 455,000 barrels to 10.278 million barrels and middle distillate stocks fell by 460,000 barrels to 11.787 million barrels on the week.

Production News

Statoil's Njord field resumed production at reduced capacity while its Visund field remains shut following a gas leak in April. Production at both sites was shut last month after gas leaked from the Visund field for nearly five hours. The Njord field was shut to conduct checks following the leak at Visund.

Italy's Unione Petrolifera said Italy's imports of crude oil from Libya fell in March after international sanctions to punish the government of Libyan leader Muammar Gaddafi took effect. Its imports fell to 572,000 tons from 1.485 million tons in February. Libya still remained Italy's largest supplier of crude oil, accounting for 21% of total crude imports into Italy in the first three months of 2011. Italy increased imports of crude oil from Iran to 828,400 tons in March from 225,300 tons in February and 383,900 tons in January.

The National Iranian Oil Co set the official selling price of its Iranian Light crude bound for Asia in June to the Oman/Dubai average plus \$2.43/barrel, up 50 cents; it set the price of its Iranian Heavy crude at the Oman/Dubai average minus 73 cents, up 25 cents and it set the price of its Forozan Blend at the Oman/Dubai average minus 64 cents, up 25 cents on the month.

Enbridge said it will spend \$286 million replacing 75 miles of pipe on its troubled Line 6B, which ruptured last summer. The work will begin in 2012.

Market Commentary

With approximately 50 percent of U.S. oil refining capacity concentrated in the Gulf Coast region, the oil industry is closely monitoring the flooding of the Mississippi River. The river is expected to peak in New Orleans on or around May 24, putting refiners on guard. There are eleven refineries, with a combined production capacity of 2415 million barrels per day, located within the flooding range. When flooding happens in this region, tankers find it difficult to circumvent the waters in order to reach terminals. Wednesday's flooding has already forced the closure of 20 percent of the terminals and at least one ship has been unable to pass under the Interstate-10 Bridge near Baton Rouge. Some of these anticipated delays are what brought back prices for crude oil and heating oil today. This natural disaster is occurring at a time when refiners have already curtailed output in order to perform scheduled maintenance and while several refining glitches have been reported. One would expect that as a result, gasoline prices would head higher but with demand declining for the seventh straight week, gasoline futures have taken a nosedive. As a result the 3-2-1-crack spread has lost 16 percent of its value over the past two days. Currently, this spread is worth \$27.61, with support set at \$27.00. A break below this level sets up for a test at \$20.04.

Crude oil: June 11 233,531 -23,142 July 11 334,406 +21,935 Aug 11 92,239 +4,080 Totals 1,664,400 +10,601 Heating oil: June 11 80,988 -6,338 July 11 61,744 +5,113 Aug 11 31,650 +396, 830 -487 Totals 306,830 -487 Rbob: June11 65,529 -12,305 July 61,195 -82 Aug 11 27,363 -1,048 Totals 279,573 -11,235

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	

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