

W The
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 13, 2011

The IEA is concerned over OPEC's oil production remaining steady as some OPEC members seem to be keen to defend a higher break even price. It is concerned that OPEC's preferred oil price level is steadily increasing. The head of the IEA's oil industry and markets division David Fyfe said this could harm the world economy. He said that while OPEC members said a fair price range for crude was between \$70 and \$80/barrel for much of the previous year, the price level has increased to \$95/barrel.

Concern is rising over shortages of

food and fuel in Libya's Western Mountains, where fear of attack threatens the rebels' single supply route and at least one remote town is blockaded by Muammar Gaddafi's forces. The supply route is facing serious challenges due to insecurity in many of the areas, in addition to severe fuel shortages.

Italy's Foreign Minister Franco Frattini said Libya's leader Muammar Gaddafi was probably wounded due to NATO airstrikes. He said the leader likely left Tripoli but remained in Libya. Meanwhile, NATO

Market Watch

The US Labor Department said US consumer prices increased as expected in April on higher food and energy prices. Its Consumer Price Index increased 0.4% after increasing 0.5% in March. It reported that core CPI, excluding food and energy, increased 0.2% after increasing 0.1% in March. Gasoline prices accounted for about 50% of the increase in overall consumer inflation last month, advancing 3.3%.

The US Commerce Department said US factory orders in March increased by 3.4% following a decline of 0.3% in February.

The Thomson Reuters/University of Michigan's survey of consumers showed the preliminary May reading on the overall consumer sentiment index came in at 72.4, its highest since February, up from 69.8 in April. The survey's gauge of consumer expectations increased to 67.4, the highest level in three months. It was above April's 61.6. Its barometer of current economic conditions fell to 80.2, down from 82.5 in April. The survey's one-year inflation expectation fell to 4.4% from 4.6% in April.

The Federal Reserve Bank of Philadelphia reported that its second quarter Survey of Professional Forecasters saw estimates of gross domestic product gains over the next four years as lower relative to the prior quarter. The forecasters are not expecting the economy to fall back into a recession and expect continued job growth. For the year as a whole, the economists see growth up by a long term trend like 2.7% from 3.2% while they lowered their estimate of 2012 growth slightly to 3% and in 2013 to 2.8%. For the second quarter, GDP is seen up by 3.2% from last quarter's estimate of 3.5% and the third quarter is seen increasing by 3.4% and the fourth quarter by 3.5%. The second quarter unemployment rate is seen at 8.9%, the third quarter at 8.7% and the fourth quarter at 8.5%. For 2011, the jobless rate is seen at 8.7% while in 2012 it is seen at 8.1% and 7.5% in 2013.

Singapore Airlines Ltd chief executive Goh Choon Phong said the carrier is hedged for 20% of its jet fuel requirements at about \$130/barrel in the current fiscal 2012 year.

Declining Rhine River water levels are forcing oil product trades to deliver by rail instead of barge as higher shipping rates make river routes uneconomical. The journey time is increased by about 12 days. Low water levels are preventing barges from loading fully and some travel as much as two-thirds or three-quarters empty. The limitations on capacity is creating shortages and triggering a rally in demand for rail capacity and low water surcharges.

**May
Calendar Averages**
CL – \$103.41
HO – \$3.0036
RB – \$3.2105

said an air offensive around key Libyan cities has significantly affected Muammar Gaddafi's forces. NATO warplanes destroyed 11 surface to air missile systems, five radar units, two artillery vehicles and ammunition depots and command and control centers across Libya in the last few days. Libyan state TV reported that sixteen civilians were killed and dozens wounded in a NATO airstrike on Brega on Thursday.

Russia's Foreign Ministry said the UN Security Council must decide how to free up and distribute Libyan leader Muammar Gaddafi's frozen assets, adding that they should not be used to arm any side in the country. Russia called for talks between the rebels and the Libyan government. Representatives of the Libyan rebels were in Washington on Friday seeking \$30 billion of Gaddafi's assets in the US that were frozen under UN sanctions. The head of the rebel council's executive bureau, Mahmoud Jebril, was meeting with President Barack Obama's national security adviser and other senior officials.

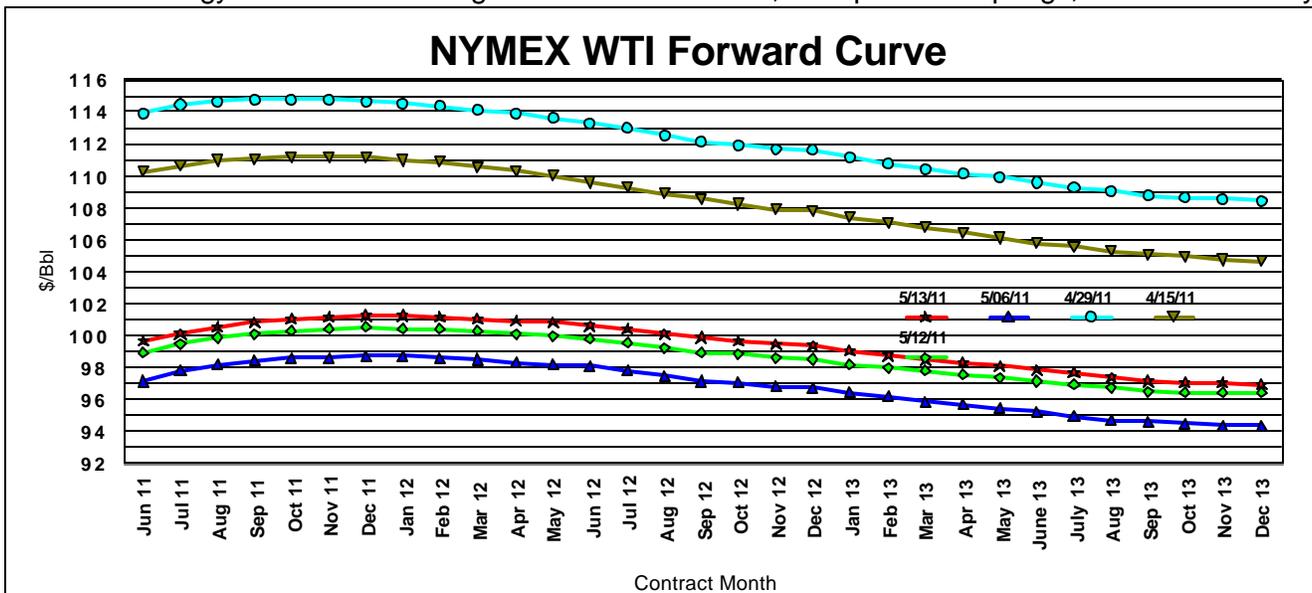
Officials in Pakistan said at least five NATO oil tankers bound for Afghanistan caught fire on Friday after a bomb planted beneath one of them exploded. There were a total of 21 tankers parked in the terminal but the other vehicles were safe after they were moved away from the blast site. The bombing follows two suicide bombings on Friday that killed 80 people at a paramilitary police training center in Shabqadar in northwest Pakistan in what Pakistan Taliban said was revenge for the killing of Osama bin Laden.

Refinery News

ExxonMobil Pipeline Co shut three crude oil pipeline segments near Baton Rouge, Louisiana, out of concern over flooding of the Mississippi River.

Magellan Midstream Partners LP said it restored power on a segment of its US southern pipeline system following a temporary power disruption. It said the pipelines are operating normally. It however discontinued operations on Friday morning at two of its terminals along the Mississippi River in Louisiana due to flood concerns. It has no schedule for when it would reopen the 2.8 million barrel terminal in Marrero and the 50,000 barrel terminal in Gibson, which mainly handle heavy oil. The US Army Corps of Engineers is planning to open the Morganza Floodway, north of Baton Rouge, as soon as Saturday to lower river levels.

Alon USA Energy said it was building a levee around its 80,000 bpd Krotz Springs, Louisiana refinery



to prevent flooding from shutting the plant within about two weeks. It has stated that the Krotz Springs refinery would be surrounded by flood waters within 14 days of the US Army Corps of Engineers opening the Morganza Spillway along the Mississippi River to prevent flooding in New Orleans.

The Pennsylvania governor's office asked the US EPA for a waiver to sell winter grade gasoline until May 31st. It said the temporary waiver is necessary to curtail supply disruptions of summer grade gasoline in the Pittsburgh area.

Sunoco Inc restarted a fluid catalytic cracking unit in the Point Breeze section of its 335,000 bpd Philadelphia refinery on Tuesday after it was shut earlier in the day.

ConocoPhillips reported emissions early Friday at its 120,200 bpd Rodeo, California refinery.

Holly Corp shut a fuel gas sweetening for cleaning at its 85,000 bpd Tulsa West, Oklahoma refinery.

France's Total is hopeful it is closing in on a deal to sell its 223,000 bpd Lindsey refinery in Britain. The sale is part of Total's plan to cut European capacity in refining by 500,000 bpd between 2007 and 2011.

Formosa Petrochemical Corp shut its No. 2 84,000 bpd residual fluid catalytic cracker at its Mailiao complex May 11 for repairs that would last about a week.

China's National Development and Reform Commission said the country's apparent oil consumption in April totaled 20.4 million metric tons or 680,000 tons/day, up 8.3% on the year. It said the end-April oil product stocks increased 450,000 tons from a year earlier. China's apparent natural gas consumption in April totaled 9.6 billion cubic meters, up 13.5% on the year but down 11.9% on the month. Separately, the National Development and Reform Commission said it would temporarily stop diesel exports to ensure domestic supply and restrict refined oil product exports except to Hong Kong and Macau. It urged oil companies to hasten the completion of new projects and maintain a full capacity operation to increase refined output.

Singapore's Maritime and Port Authority of Singapore said the number of oil, gas and chemical tankers passing through the port of Singapore in April was down 4.8% from the previous month and overall tonnage was 6.9% lower. The port handled a total of 1,860 tankers with a combined gross tonnage of 54.23 million tons last month, down from 1,954 vessels and a gross tonnage of 58.27 million tons in March. Of the tankers handled by the port last month, 1,346 were oil tankers, down from 1,405 in March.

Singapore bunker sales volumes fell to their lowest level in 14 months in April to 3.25 million tons, down about 5.1% on the year and 7.7% on the month.

ERG SpA said its first quarter net loss doubled as refining runs fell. Its first quarter net loss at replacement cost was 32 million euros. It expects its overall results to improve during the rest of 2011. Its refining runs in the first quarter totaled 1.7 million tons compared with 2.2 million tons a year earlier.

Production News

A top EPA official said the EPA is close to granting three permits to Royal Dutch Shell Plc for drilling operations off the coast of Alaska. Shell has spent \$3.5 billion to explore and prepare for drilling activity off the coast of Alaska but legal challenges and regulatory hurdles have prevented the company from obtaining necessary approvals.

The general manager of Total SA's Nigerian Gas Business and Commercial Crude said for the short term Nigeria is not able to fill the gap in oil supply left by the absence of Libyan crude due to Nigeria's supply constraints.

Four cargoes of North Sea Forties crude oil due to load in June has been dropped as production problems at the 200,000 bpd Buzzard field continue to disrupt supply and keep the North Sea market tight. A cargo belonging to Suncor was dropped. Also a cargo loading on June 6-8 has been delayed to June 21-23 and the shipment for June 3-5 has been delayed until June 8-10. Volumes of Forties crude, which was originally scheduled to load 480,000 bpd of crude in June, have been reduced to 400,000 bpd.

The Norwegian Petroleum Directorate said Norway's preliminary oil production in April increased to 1.786 million bpd of oil equivalent, up from 1.736 million bpd of oil equivalent in March.

Danish Underground Consortium's oil production from Denmark's part of the North Sea increased about 4% in April from the previous month. Its oil and condensate output increased to 197,900 bpd in April from 189,500 bpd in March. DUC exports of natural gas fell to 520 million cubic meters from 540 million cubic meters in March and were down from 650 million cubic meters in April last year.

OAO Lukoil said development of the West Qurna field with partner Statoil ASA is expected to yield 150,000 bpd by 2013, with production increasing to about 400,000-500,000 bpd by 2014.

Azerbaijan's State Statistics Committee said the country's oil and gas condensate production fell 5% on the year to 15.9 million tons in January-April 2011. Production of refined products fell to 2.04 million tons in the first four months of 2011 from 2.1 million tons last year.

Market Commentary

Once again crude oil took a rollercoaster ride as it traded in response to a lower equities market and weekend short covering. Market participants also covered short positions as concern over flooding in the South East continues mount. The lack of fresh news and a stronger dollar combined to put pressure on the downside. Gasoline and crude oil finished the week on a lower note, pressured by apprehension that demand will not begin its seasonal peak. With expectations that the Mississippi River could overflow into the region where refineries are located, we should see all three markets open the week on a higher note, trading in somewhat narrow ranges. Should there be minimal to no damage, prices will turn right back to the downside.

Crude oil: June 11 208,145 -25,386 July 11 356,216 +21,810 Aug 11 93,729 +1,490 Totals 1,663,495 -905 Heating oil: June 11 75,680 -5,308 July 11 68,015 +6,271 Aug 11 32,780 +1,130 Totals 311,202 +4,372 Rbob: June11 63,324 -2,205 July 65,403 +4,28 Aug 11 27,409 +46 Totals 282,314 +2,741

The Commitment of Traders report showed that non-commercials in the crude market in the week ending May 10th fell by 32,812 contracts to 211,514 contracts. The combined futures and options report showed that non-commercials cut their net long position by 40,007 contracts to 282,031 contracts on the week. Meanwhile, the disaggregated futures and options report showed that managed money funds cut their net long position by 38,110 contracts to 255,713 contracts as the market erased its previous gains posted during the previous week.

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.