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## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR MAY 19, 2011**

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The IEA urged oil producers to increase their production to protect the economic recovery. IEA members said that as global demand for oil increases seasonally from May to August, there was a clear and urgent need for additional supplies to be made to refiners. The IEA added that it stood ready to work with producers as well as consumer countries which are not members.

Gulf oil officials said OPEC members may increase their output individually to respond to increasing demand this summer. However a Gulf official said coordinated action could not be fully ruled out either.

#### Market Watch

The US Labor Department said the number of workers filing new claims for unemployment benefits fell last week. Initial unemployment claims fell by 29,000 to a seasonally adjusted 409,000 in the week ending May 14<sup>th</sup>. The prior week's figure was revised to 438,000 from an originally reported 434,000. The four week moving average of new claims increased by 1,250 to 439,000 in the week ending May 14<sup>th</sup>. The Labor Department said the number of continuing unemployment benefit claims fell by 81,000 to 3,711,000 in the week ending May 7<sup>th</sup>. The unemployment rate for workers with unemployment insurance was 3% in the week ending May 7<sup>th</sup>, unchanged from the previous week.

Federal Reserve Bank of New York President William Dudley said economic growth should improve from the unexpectedly slow pace seen at the start of the year, as rising inflationary pressures rooted in energy and commodity price gains moderate. He said the weakness of real output growth in the first quarter is likely temporary.

According to a Bloomberg Index, US consumer comfort deteriorated for the fourth consecutive week. The Bloomberg index's overall consumer-comfort index rating as -49.4 on a scale of -100 to +100, compared with -46.9 a week earlier. The gauge of sentiment on the economy worsened to -75.6 from -75 the prior week.

The Philadelphia Federal Reserve Bank said its measure of manufacturing in the US Mid-Atlantic region increased more slowly than expected in May. Its business activity index fell to 3.9 from 18.5 in April. It was the index's lowest level since October 2010. The index for new orders fell to 5.4 from 18.8 in April. The employment index increased to 22.1 from 12.3.

The National Association of Realtors said sales of previously owned US homes fell unexpectedly in April. Sales fell 0.8% on the month to an annual rate of 5.05 million units from a downwardly revised 5.09 million in March.

The National Oceanic and Atmospheric Administration said above normal temperatures are expected from the US Southwest through Florida in June through August. Below normal temperatures are expected in the upper Midwest and Great Lakes region. All other regions have equal chances of normal, below-normal or above normal temperatures. The NOAA also said it expects the 2011 Atlantic hurricane season to be above normal. It predicts 12 to 18 named storms during this year's hurricane season. Of those storms, six to ten are expected to be hurricanes, including three to six major hurricanes expected to reach category 3 or higher. The average season has 11 named storms, six hurricanes and two major hurricanes.

The AAA stated that US auto travel over the Memorial Day weekend is expected to fall 0.3% on the year, despite a 37% increase in gasoline prices. It said there would be 30.9 million auto travelers over the May 26-May 30 holiday period, down from 31 million a year ago. The average retail gasoline prices are at record highs at about \$3.91/gallon, up more than \$1 from a year ago. Total holiday travel by all means would increase by 0.2% on the year, with air travel up 11.5% from a year ago.

**May**  
**Calendar Averages**  
**CL – \$101.92**  
**HO – \$2.9683**  
**RB – \$3.1312**

Saudi Arabia's finance minister Ibrahim Al-Assaf said Saudi Arabia is concerned about speculative interest in oil markets. He said the country is concerned about high oil prices.

According to Oil Movements, seaborne oil exports from OPEC, excluding Angola and Ecuador, are expected to increase by 420,000 bpd to 22.91 million bpd in the four weeks ending June 4<sup>th</sup>.

NATO's Secretary General Anders Fogh Rasmussen said NATO's bombing campaign in Libya has significantly degraded Muammar Gaddafi's military power. He said the Gaddafi regime is more and more isolated every day. Gaddafi's forces have lost control of vast parts of the east of the country to anti-regime rebels.

The European Union agreed to significantly expand its sanctions against Iran over its refusal to freeze its disputed nuclear activities. EU foreign ministers are expected to approve the new measures, which would add several subsidiaries of companies already on the sanctions list at a meeting in Brussels on Monday.

A Yemeni opposition official said Gulf Arab foreign ministers would meet for talks on Yemen soon after a power transition deal for the country fell through for a second time. Concerned that continued unrest could strengthen al Qaeda's local wing, Western and Gulf powers have agreed on a transition plan hoping to end the crisis. However last minute snags prevented the deal from being signed on Wednesday. The agreement is expected to be signed on Sunday.

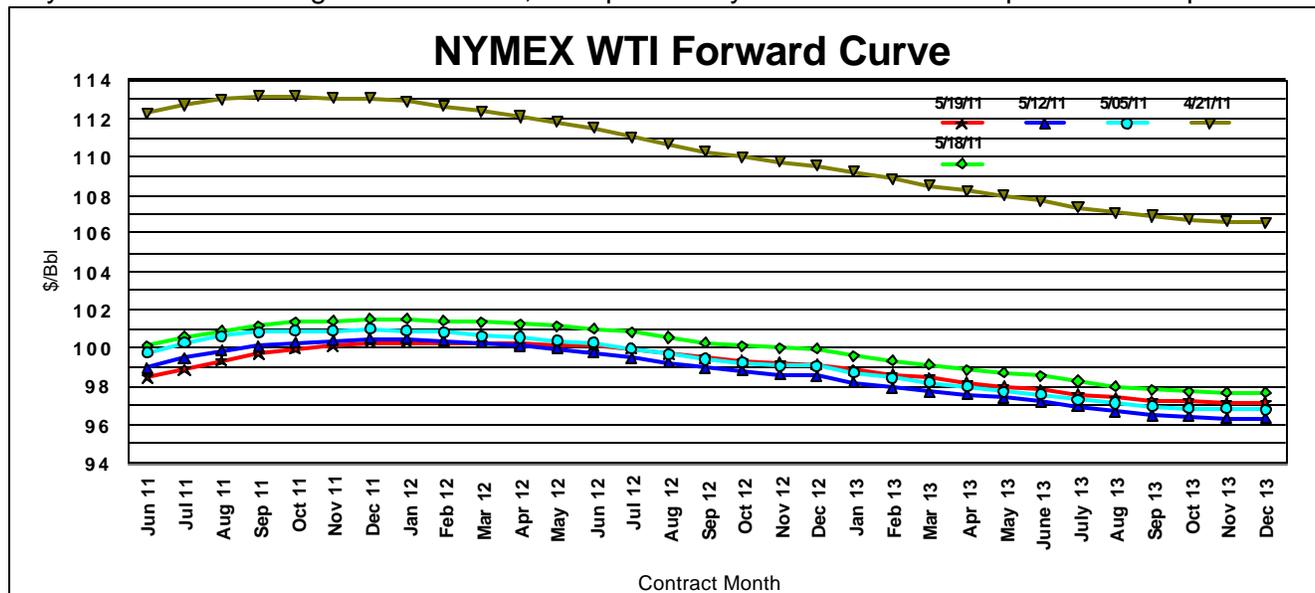
**Refinery News**

Los Angeles May CARBOB differentials fell as much as 11 cents/gallon on Thursday on pipeline scheduling on a Kinder Morgan pipeline.

Alon USA is shutting down units at its 80,000 bpd refinery in Krotz Springs, Louisiana because of rising flood waters. The crude unit is scheduled to be last one to shut down on Friday.

ConocoPhillips reported a leak in an underground pipeline resulting in a discharge of an unknown amount of unleaded gasoline in Bartlesville, Oklahoma.

Italy's Saras is restarting units at its 300,000 bpd refinery in Sardinia and the plant is in the process of



returning to full capacity.

Workers at Greece's Hellenic Petroleum SA began a 4 day walkout Thursday, the latest protest in an ongoing dispute with management over wage and staffing issues. However an official said the strike action would not lead to supply disruptions in the market and that the company's three refineries would continue to meet their contractual obligations as provided by law.

Gasoline stocks held in independent storage in the Amsterdam-Rotterdam-Antwerp area in the week ending May 19<sup>th</sup> fell by 7.61% on the week and by 21.62% on the year to 656,000 tons. Fuel oil stocks increased by 7.33% on the week but fell by 14.59% on the year to 732,000 tons while gasoil stocks increased by 1.6% on the week and by 16.63% on the year to 2.925 million tons. Naphtha stocks increased by 1.67% on the week but fell by 37.11% on the year to 61,000 tons while jet fuel stocks fell by 7.01% on the week and by 36.56% on the year to 491,000 tons.

Singapore's International Enterprise stated that residual fuel stocks in the week ending May 18<sup>th</sup> increased by 1.449 million barrels to 22.488 million barrels. It also reported that light distillate stocks fell by 178,000 barrels to 10.1 million barrels while middle distillate stocks fell by 1.213 million barrels to 10.574 million barrels on the week.

### **Production News**

Cenovus Energy Inc cut production at its Pelican Lake, Alberta heavy oil field further to 4,000 bpd. It said it would have to shut production at the 22,000 bpd field later on Thursday unless Plains All American Pipeline can reopen the southern leg of its Rainbow pipeline as storage tanks at the field are nearing capacity. Meanwhile Plains All American Pipeline said the lower portion of the Rainbow pipeline is unlikely to restart on Thursday.

Angola's loading volumes are expected to increase sharply in July. Angola is scheduled to export 56 cargoes with a volume totaling 1.73 million bpd in July, up from a total 1.4 million barrel originally planned for export in June.

Imports of West African crude oil by Asian countries are expected to average 1.49 million bpd in June. China is expected to import about 23 cargoes of mostly Angolan and Nigerian crude, the lowest level since February 2009.

Russia's Deputy Prime Minister Igor Sechin said Russia would consider introducing tax concessions for new oil fields if the oil price falls beyond \$95/barrel.

South Korea's finance ministry said it would scrap the 2% import tariffs on liquefied petroleum gas and crude oil for domestic LPG production through the end of the year to help contain inflation. The measure is expected to take effect from the end of May.

Danish oil, gas and power group DONG Energy reported a drop in core earnings in the first quarter due to heavy hedging losses. Earnings before interest, tax, depreciation and amortization after adjustments for hedging losses fell to 485 million Danish crowns in the three months ending March from 4.34 billion crowns last year. It said its first quarter oil and gas production increased to 6.5 million barrels of oil equivalent from 6.4 million a year ago.

### **Market Commentary**

Oil fell after the IEA released a report expressing "serious concern" in regards to high gasoline prices and the impact they are having on the consumer. Despite prices falling almost 10 percent, the IEA said that high prices continue to have an impact on households and businesses around the world. Furthering the move lower was a drop in the U.S. leading economic indicators, which fell for the first

time in 10 months. This gives way to evidence that there is lingering concern in regards to the state of the economy both here and abroad. With the lack of any significant new news, this market should continue to trade in a choppy fashion within the long-standing upward channel.

Gasoline futures fell 15 percent this month, the largest monthly drop in a year, as demand shrinks, refiners bring spare capacity back on line after maintenance and plants in Louisiana avoid damage from Mississippi River floods. Those expecting tightness in supply have begun to think otherwise after the Morganza spillway was opened, redirecting Mississippi floodwater away from the 10 refineries it has posed a threat to. With prices at the pump remaining high, demand for gasoline is expected to fall and the IEA predicts that gasoline demand will decline 1.5 percent from a year earlier. With the perceived squeeze removed from the market along with concerns that supplies in the Gulf would be disrupted, the gasoline crack spread has narrowed to \$24.75 from a recent high of \$38.07. With expectations that demand will not reach its seasonal peak, crack spreads will continue to weaken.

Crude oil: July 11 403,840 +17,242 Aug 11 88,984 -2,270 Sept 11 89,781 +704 Totals 1,560,617 -22,251 Heating oil: June 11 57,189 -4,162 July 11 81,137 +4,753 Aug 11 32,828 +54 Totals 313,789 +3,018 Rbob: June 11 48,998 -2,165 July 76,730 +638 Aug 11 27,450 -578 Totals 277,617 +787

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
9284	10300		31325		
8700	10845	27695	32777		33369
8625	11120	26680	33370	26965	35915
8500	11483	27375	33510	26300	36310
8385	11563	23685		25683	
	11703	22960		25145	
	12126			24240	
	14933			23631	
				23414	

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