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Windham Group



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR MAY 20, 2010**

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A member of Iran's parliament said Iran could cancel an agreement with Turkey and Brazil to transfer 1,200 kg of low-enriched uranium abroad if the UN Security Council approves a fourth round of sanctions against it. Meanwhile, a Russian official confirmed that Iran is set to open a nuclear reactor built by Russia, a step likely to increase Western fears over Iran's nuclear program. The reactor is scheduled to start operating in August.

Russia's state arms exporter, Rosoboronexport, said it would comply with UN sanctions, after reports said proposed UN measures against Iran would halt Russia's sale of S-300 surface to air missiles to Iran. Earlier Thursday, Western diplomats said proposed UN sanctions against Iran's nuclear program would halt Russia's sales of the missiles to Iran. Diplomats said the test for new sanctions had been broadly agreed to by world powers. According to a copy of the draft, the sanctions would ban the sale of tanks, armored fighting vehicles, large caliber artillery, war planes, attack helicopters,

#### **Market Watch**

The US Labor Department reported that initial claims for unemployment benefits increased by 25,000 to 471,000 in the week ending May 15<sup>th</sup>. The previous week's level was revised upward to 446,000 from 444,000. It reported that the four week moving average increased by 3,000 to 453,000 from the previous week's unrevised average of 450,500. The number of continuing claims fell by 40,000 to 4,625,000 from the preceding week's revised level of 4,665,000. The unemployment rate for workers with unemployment insurance in the week ending May 8<sup>th</sup> was 3.6%, unchanged on the week.

The Conference Board said its index of US leading economic indicators fell by 0.1% last month. It was the first decline since March 2009.

The Philadelphia Federal Reserve Bank said its business activity index increased to 21.4 in May from April's 20.2. Economists had expected a reading of 22. The report's jobs component fell to 3.2 from April's 7.3.

The AAA said US auto travel over the Memorial Day weekend is projected to increase by 5.8% on the year to the highest level since 2007. It also stated that although gasoline prices are up from a year ago, it does not expect prices to average above \$3/gallon for the holiday weekend. Auto travel is expected to account for 87% of all travel over the holiday. Separately, the AAA Daily Fuel Gauge Report said the national average price of regular gasoline stood at \$2.84/gallon, down 1.2 cents/gallon from Wednesday but up 50.6 cents from a year earlier.

The National Oceanic and Atmospheric Administration said below normal temperatures are expected from the northern Plains and the Great Lakes region south to northern Texas in June through August. Above normal temperatures are expected in the southwest, the southeast and in Alaska. All other regions have equal chances of normal, above-normal or below normal temperatures.

Nigeria's main militant group, the Movement for the Emancipation of the Niger Delta dismissed government pledges to revive a post-amnesty program in the Niger Delta, saying it failed to address their demands for greater control of the region's oil resources. The government said it would relaunch a rehabilitation program for more than 20,000 ex-rebels, with the first batch of 2,000 due to take part in the first week of June.

**May  
Calendar Averages**  
**CL – \$75.24**  
**HO – \$2.0991**  
**RB – \$2.1592**

warships, missiles and missile defense systems to Iran.

According to Oil Movements, OPEC's oil exports are expected to increase by 280,000 bpd to 23.53 million bpd in the four weeks ending June 5<sup>th</sup>.

Genscape reported that oil inventories at the US Cushing, Oklahoma crude oil terminal increased by 500,000 barrels to 39.46 million barrels in the week ending May 18<sup>th</sup>. It also reported that crude stocks at Cushing fell by 116,000 barrels in the four days from May 14<sup>th</sup> to May 18<sup>th</sup>.

BP Plc said it recovered about 187,000 barrels or 7.8 million gallons of oil liquid so far from the oil spill in the Gulf of Mexico.

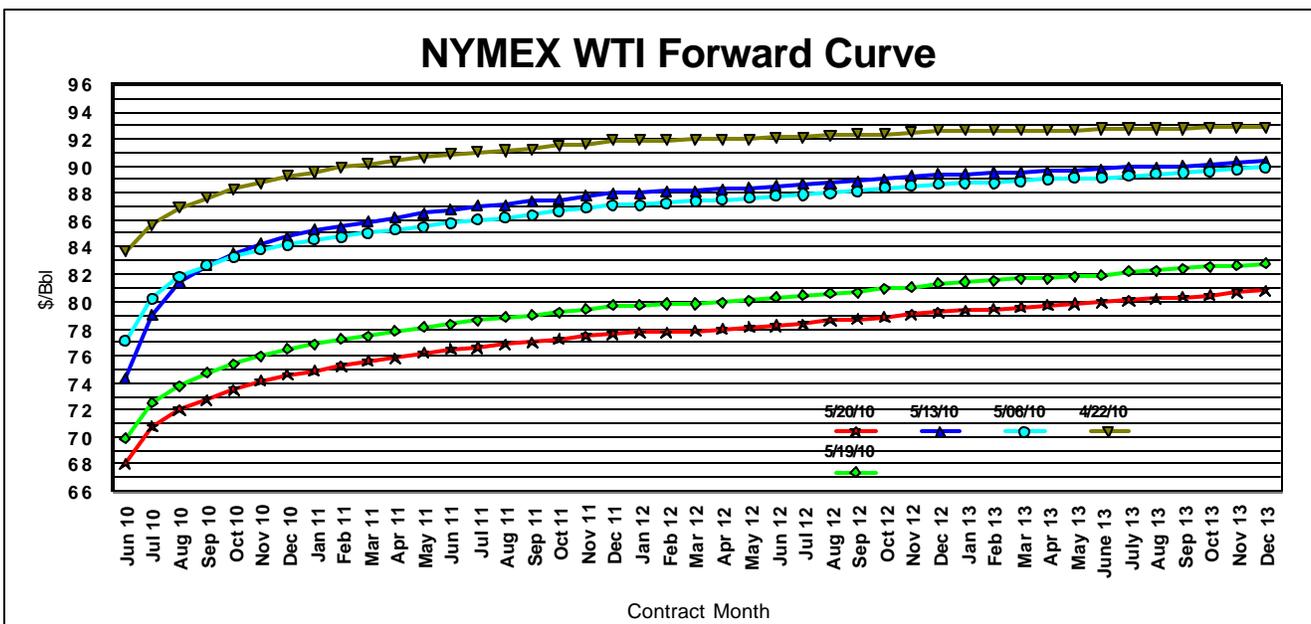
**Refinery News**

Valero Energy Corp reported excess emissions from a sulfur recovery unit at its 170,000 bpd McKee, Texas refinery. Valero also reported that it restarted a gasoline desulfurization unit at its 315,000 bpd refinery in Corpus Christi, Texas that was shut on Wednesday. It said there was no material impact to production. Valero Energy also stated that sulfur recovery unit No. 2 at its 100,000 bpd Three Rivers, Texas refinery was in service with emissions caused a reportable flaring event at the plant.

Kuwait National Petroleum Co's 200,000 bpd Shuaiba refinery is scheduled to shutdown for full maintenance in April next year.

Gasoline inventories held in independent storage in the Amsterdam-Rotterdam-Antwerp area in the week ending May 20<sup>th</sup> increased by 2.42% on the week and by 9.41% on the year to 837,000 tons while its gas oil stocks fell by 3.8% on the week and by 3.76% on the year to 2.508 million tons and fuel oil stocks fell by 0.46% on the week but increased by 53.58% on the year to 857,000 tons. Naphtha stocks increased by 25.97% on the week and by 36.62% on the year to 97,000 tons while jet fuel stocks fell by 5.72% on the week but increased by 7.2% on the year to 774,000 tons.

Germany's MWV reported that the country's heating oil sales in April fell by 40.2% on the year to 1.04 million tons while its diesel sales fell by 0.8% to 2.63 million tons and its fuel oil sales fell by 14.5% to 390,000 tons. Germany's gasoline sales fell by 4.6% on the year to 1.67 million tons.



Singapore's International Enterprise reported that the country's residual fuel stocks built by 366,000 barrels to 24.152 million barrels in the week ending May 19<sup>th</sup>. Singapore's light distillate stocks fell by 216,000 barrels to 10.697 million barrels while middle distillate stocks fell by 146,000 barrels to 12.388 million barrels on the week.

South Korea's Korea National Oil Corp imported 70.21 million barrels or 2.34 million bpd of crude in April, down 0.2% on the year. It reported that South Korean refineries processed 68.94 million barrels in April, down 0.8% on the year and 1.2% on the month. The country's commercial crude oil stocks fell by 63.7% on the year to 8.1 million barrels. It also reported that South Korea's domestic oil production demand in April fell by 0.9% on the year to 64.4 million barrels. Its gasoline demand in April increased by 4% on the year but fell by 2.1% on the month to 5.5 million barrels while diesel demand increased by 3% on the year but fell by 2.8% on the month to 11.4 million barrels.

### **Production News**

Iraq has resumed pumping crude at a normal level of 450,000 bpd from its Kirkuk oil field to the Mediterranean port of Ceyhan in Tuesday after a brief suspension.

India's Oil & Natural Gas Corp has halted production at its east coast fields as a precautionary measure due to the onset of cyclonic storm Lailain the Bay of Bengal.

China National Petroleum Corp plans to bring on line an oilfield in Iran later in 2010. The oil field is expected to have an output capacity of 1 million tons/year or 20,000 bpd.

Chevron said a planned expansion of the Tengiz oilfield in Kazakhstan would add 12 million metric tons/year of crude production by 2016. The decision of whether to expand the field may be taken in 2011. It said production at Tengiz may reach 800,000 bpd by 2016.

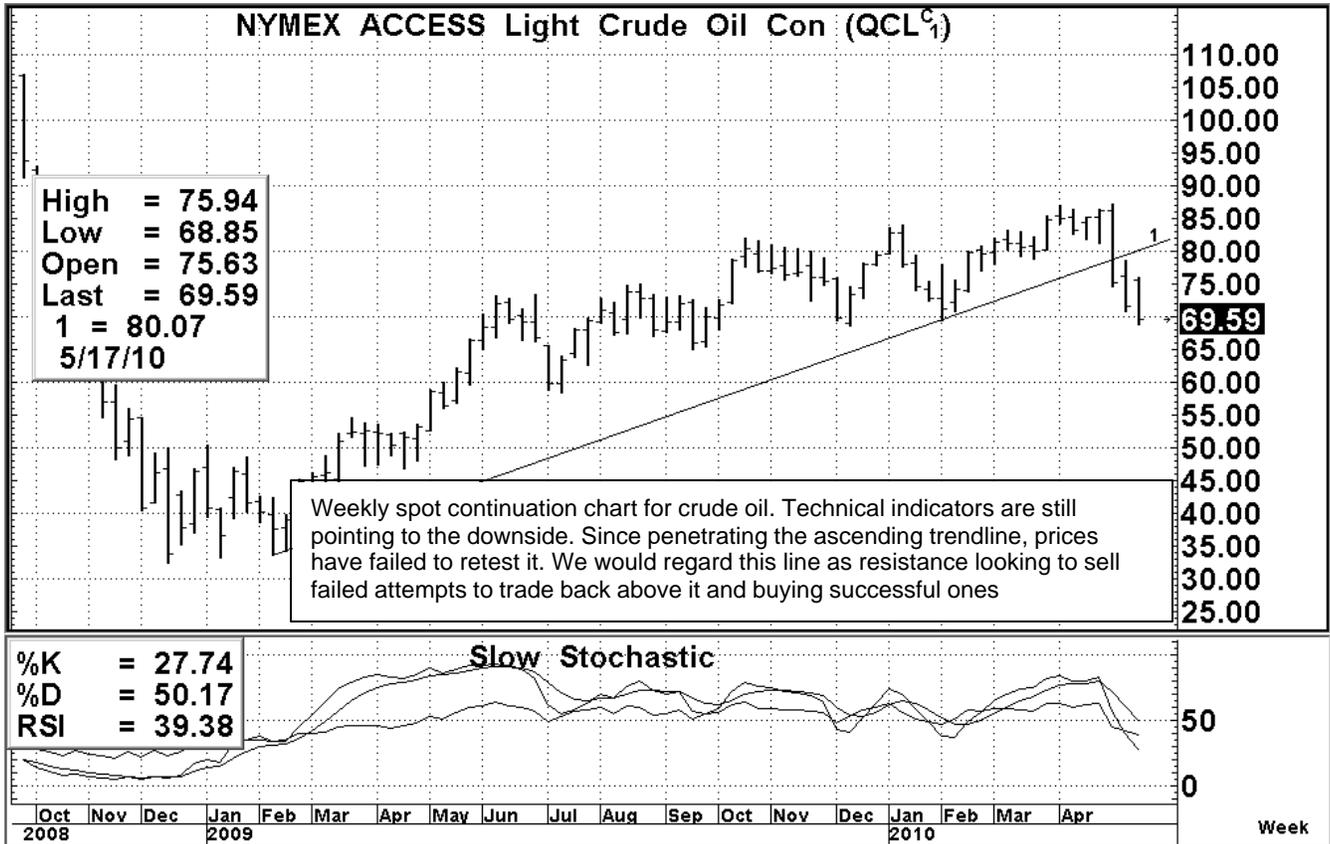
OPEC's news agency reported that OPEC's basket of crudes fell by \$2.20/barrel on Wednesday from \$72.77/barrel on Tuesday.

### **Market Commentary**

With concerns mounting regarding Europe and its ability to contain its sovereign debt crisis, crude fell 2.3 percent to its lowest level since September. The lackluster U.S. job market added to the downfall, with the U.S. jobless rate increasing 25,000 to 471,000 for the week ending May 15. Commodities across the board fell as investors decided that there is too much risk involved should the second half of 2010 fail to show signs of improvement. The expiration of the June contract brought about the rolling of positions into the deferred contract or just straight out liquidation of longs. Crude oil is now below the OPEC target range of \$70 - \$80 a barrel but we have yet to hear from OPEC in regards to output cuts. With the U.S. job market not showing signs of improvement, demand is at the forefront of this market. Until we see the job situation begin to increase steady, we do not see demand picking up. Gasoline's move lower today reflected this concern, with the June contract settling 2.5% lower on the day. According to AAA, prices at the pump slipped 1.2 cents to an average of \$2.84 a gallon, the lowest level since April. The 3-2-1 crack spread, the spread used to determine the turning of 3 barrels of crude oil into 2 barrels of gasoline and 1 barrel of heating oil slipped again today. The July 3-2-1 spread which has been on a steady climb since December is approaching support set at \$10.75. Should this level become penetrated, a test at the \$9.80 level could occur.

Crude oil July 10 401,003 +8,391 Aug 10 109,422 +3,422 Sept 10 95,669 +2,772 Totals 1,370,636 – 17,271 Heating oil June10 47,661 –2,562 July 10 68,512 +2,402 Aug 10 35,240 +950 Totals 317,652 -670 Gasoline June10 41,549 –6,120 July 10 84,787 +5,593 Aug 10 38,029 -435 Totals 268,720 -862

<b>Crude Support</b>	<b>Crude Resistance</b>
65.55, 64.20, 63.38, 62.70, 61.61, 60.95,	71.20, 72.25, 73.25, 76.71, 78.81, 79.15, 79.75, 80.07, 81.65,
<b>Heat Support</b>	<b>Heat resistance</b>
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>
1.8700, 1.7900, 1.6050, 1.3345	2.0330, 2.0975, 2.1700, 2.2345, 2.3240, 2.4270, 2.4850, 2.5040, 2.5115, 270.80



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