



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR MAY 21, 2010

BP Plc said it continues its work to collect oil by the riser insertion tube tool containment system. It said the amount of oil it's collecting from the leak in the Gulf of Mexico has declined since Tuesday to 2,200 bpd. BP challenged the accuracy of some third party estimate that have put the amount of oil flowing from the damaged Macondo well into the Gulf of Mexico at 50,000 bpd or higher. However the company was still unable to put a figure on the volume of oil flowing from the well into open water.

The API reported that US crude oil production in April remained at five year highs, averaging 5.51 million bpd, up 4.2% on the year. Crude oil production in the lower 48 states increased by 6.8% to 4.86 million bpd, while output in Alaska increased by 0.2% to 654,000 bpd. It also reported that gasoline deliveries increased by 2.2% in April to 9.1 million bpd while distillate deliveries increased by 6.7% on the year to 3.69 million bpd. Jet fuel deliveries in April fell by 1.1% on the year to 1.41 million bpd.

Market Watch

Europe is expected to receive spot diesel imports in late May shipped from the US East Coast. About 2 million barrels of diesel was booked to sail to Europe when the arbitrage window was open. The arbitrage has since closed.

US President Barack Obama announced a government push on Friday to increase auto fuel efficiency standards for model-year 2017 vehicles and beyond. The effort also includes an order for environmental and transportation regulators to create the first US efficiency targets for medium and heavy duty trucks for model years 2014-18.

The US House is expected to vote early next week on a jobs bill that includes revival of the \$1/gallon biodiesel tax credit for this year. The bill will be offered as an amendment to a Senate passed bill. The credit will be retroactive.

Caspian Sea producers will suspend oil swaps with Iran starting June 1st after Iran raised fees on operations to avoid an oil supply following lower sales of its own crude. Caspian Sea producers were notified by the National Iranian Oil Co it would raise the swap fee by 200-240% to \$5-\$6/barrel from the current \$1.77/barrel level. Iran has been importing about 30,000 bpd of crude from the Caspian Sea from traders such as Vitol and Litasco for its northern refineries and giving similar volumes of its crude in the Gulf.

Refinery News

Shell Oil reported a process unit upset early Friday at its 340,000 bpd refinery in Deer Park, Texas.

Royal Dutch Shell shut a bitumen processing unit at its 125,000 bpd Geelong refinery in Australia following a fire. It said the incident will not affect petrol or diesel supplies.

Total Petrochemicals reported intermittent flaring at its 232,000 bpd Port Arthur, Texas refinery.

**May
Calendar Averages**
CL – \$74.89
HO – \$2.0856
RB – \$2.1460

Hess said the restart of its fluid catalytic cracking unit at its 70,000 bpd Port Reading, NJ refinery was proceeding as planned. It expects all of its units to resume operations this weekend.

China's commercial crude inventories at the end of April fell by 2.8% on the month to 27.74 million tons. China's refined fuel stocks fell by 5.4% on the month to 17.53 million tons. China's diesel exports in April reached a record of 560,000 tons, exceeding the previous record of 510,000 tons reported a year ago. Gasoline exports in April increased by 124% on the year and 20% on the month to 696,888 tons. China imported 2.47 million tons of fuel oil in April, down 1.23% on the year and 328,610 tons of kerosene, down 28.42% on the year.

Japan has offered to sell more crude from its national reserves in Okinawa as it seeks to make room for Saudi Arabia to store crude. Japan's government is offering about 300,000 kiloliters or about 1.9 million barrels of Kuwait crude from tanks it rents at the Okinawa Oil Base. It also issued a separate tender for about 90,000 kl or about 565,000 barrels of Khafji crude from the shared Neutral Zone between Saudi Arabia and Kuwait from government stocks in Sibushi, Kagoshima in southern Japan.

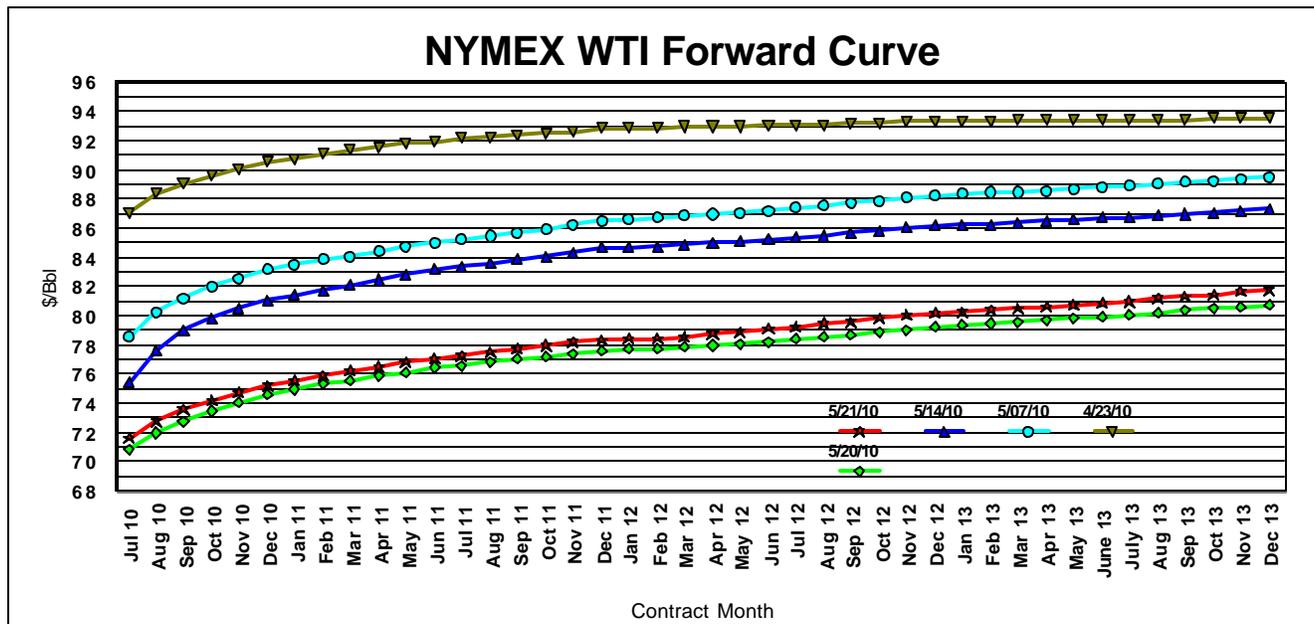
Production News

Baker Hughes reported that the number of rigs searching for oil and natural gas increased by 12 to 1,518 this week. The number of rigs searching for oil fell by 6 to 538 on the week.

Statoil has evacuated and shut the Gullfaks C platform in the North Sea after changes in well pressure led to a fault on one of two valves designed to prevent a blowout. It said it was still too early to say when production would restart at Gullfaks C and the nearby Tordis field, which was also shut due to the well incident. The Gullfaks C platform produces 78,000 bpd of oil and 420 million standard cubic meters/year of gas while the Tordis field produces 46,000 bpd of oil and 50 million standard cubic meters/year of gas.

Royal Dutch Shell lifted the force majeure on Nigerian Bonny Light's May and June export on Friday.

The head of Iraq's South Oil Co, Dhiya Jaafar said Iraq expects crude production from its southern oilfields, Rumaila, Majnoon and West Qurna Phase one to reach about 2.1 million bpd by the end of the year. The output target from Rumaila is expected to reach 1.085 million bpd after July this year



from 1.065 million bpd now and a more than 10% increase in production by the end of the year. The total production level would increase to about 1.2 million bpd. Output from the 12.6 billion barrel Majnoon field could reach 150,000 bpd by early next year while output from the West Qurna phase one is expected to increase to 280,600 bpd by the end of 2010. He said Iraq plans to increase storage capacity to 50 million barrels by the end of 2012.

Mexico's Pemex said its crude exports averaged 1.437 million bpd in April, up from 1.325 million bpd in March and 1.177 million bpd in April 2009. Overall crude production for the first four months of the year was 2.603 million bpd compared with an average of 2.661 million bpd in the first four months of 2009.

India's Reliance Industries resumed oil and gas production on Friday from its MA-1 field on the east coast as cyclone Laila weakened.

Nigeria had planned to ship the largest program of Qua Iboe crude seen in several years in June, however a series of outages has resulted in nine of those cargoes being deferred to July. The plan for June had at least 13 cargoes of Qua Iboe, containing 950,000 barrels each, production that would total at least 412,000 bpd. Provisional plans also show seven 975,000 barrels cargoes of Agbami crude and a cargo of 375,000 barrels in addition to nine cargoes of Akpo crude of the same size. Four Amenam cargoes will also be shipped two of 950,000 barrels and two of 1 million barrels.

The Kashagan oil field in the Caspian Sea will start commercial production in 2012.

OPEC's news agency reported that OPEC's basket of crudes fell further to \$69.64/barrel on Thursday from \$70.57/barrel on Wednesday.

Market Commentary

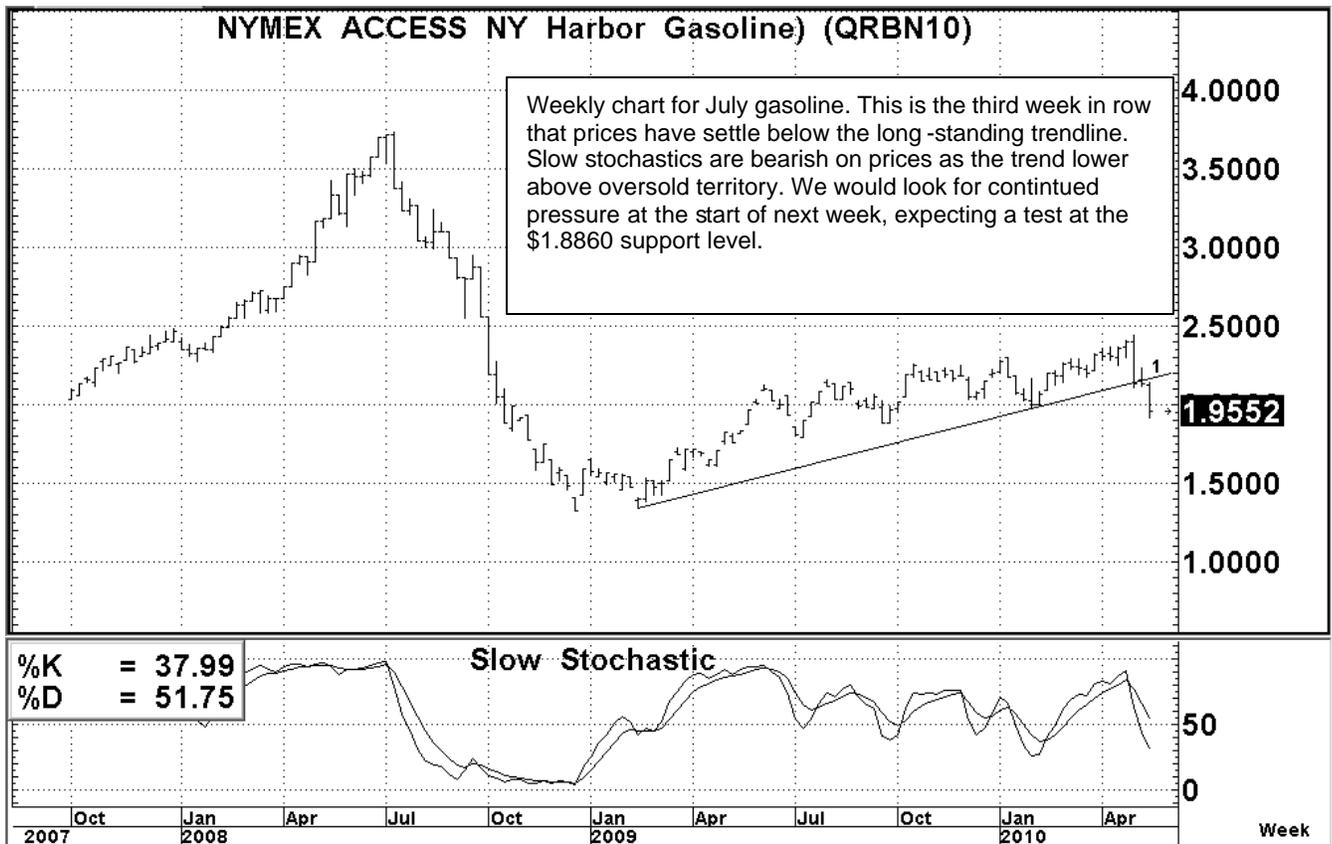
Crude oil settled the week down 7.1 percent as concerns spread that European governments would be unable to slow their debt crisis. Fear is continuing to mount that this will affect the global economic recovery on a whole; forcing longs to rethink their positions, where ~~as~~ three weeks ago market participants were talking \$90.00 crude oil. Stockpiles of both crude oil and its byproducts are at their highest seasonal level in almost 10 years, another bearish factor in this market. Margins on crack spreads continue to erode in response to diminishing demand. Gasoline, basis the July contract lost 8% on the week as prices fell to their lowest level since September. Should we see an increase in demand just ahead of the U.S. Memorial Day Holiday, we do not feel that it will be that significant enough to impact price movement, which still appears to be to the downside. Coming into next week we would look for the July Gasoline to work lower with a test at the \$1.8860 support level. The July/August crude oil spread appears to be overvalued given the supply/demand scenario. Based upon this, we would look for crude oil to continue lower next week and for this spread to sustain additional pressure with a test at the -\$2.79 level.

The Commitment of Traders report showed that non-commercials in the crude market cut their net long position by 25,534 contracts to 67,361 contracts in the week ending May 18th. The combined futures and options report showed that non-commercials cut their net long position by 35,174 contracts to 134,853 contracts. The funds have continued to cut their net long position given the market's continued sell off. The disaggregated futures and options report showed that producers/merchants cut their net short position by 17,821 contracts to 198,597 contracts while swap dealers increased their net long position by 25,420 contracts to 40,550 contracts on the week. The managed money funds cut their net long position by 41,521 contracts to 89,335 contracts while other reportable increased their net long position by 6,347 contracts to 45,519 contracts on the week. Meanwhile, the combined futures and options report showed that non-commercials in the heating oil

market cut their net long position by 3,349 contracts to 17,995 contracts while funds in the RBOB market cut their net long position by 4,592 contracts to 48,345 contracts.

Crude oil July 10 398,766 -2,237 Aug 10 111,137 +1,715 Sept 10 98,078 +2,409 Totals 1,341,592 -29,044 Heating oil June10 39,418 -8,243 July 10 68,198 -314 Aug 10 35,239 -1 Totals 309,449 -8,203 Gasoline June10 41,025 -524 July 10 85,970 +1,183 Aug 10 38,465 +436 Totals 270,560 +1,840.

Crude Support	Crude Resistance
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
Heat Support	Heat resistance
1.8570, 1.8280, 1.7670, 1.7565	2.1760, 2.1920, 2.3575, 2.4200, 2.4940
Gasoline support	Gasoline resistance
1.8650, 1.6010	2.0330, 2.0975, 2.1700, 2.2345, 2.3240, 2.4270, 2.4850, 2.5040, 2.5115, 2.7080



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