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ENERGY MARKET REPORT FOR MAY 25, 2010

Gulf Oil Minister played down the fall in oil prices below \$70/barrel and said OPEC had no plans to call an emergency meeting to discuss supply policy. Kuwait's Oil Minister Sheikh Ahmad al-Abdullah al Sabah said OPEC was not concerned about the recent fall in prices and had no plans to call an extraordinary meeting. He called on fellow OPEC members to increase their compliance with existing output targets. UAE Oil Minister Mohammed Al-Hamli also said OPEC has made no plans for an extraordinary meeting so far. He said he was not concerned about the recent fall in oil prices. Separately, he said oil prices of between \$70 and \$80/barrel were needed to encourage investment in energy projects.

OPEC's President and Ecuador's Energy Minister Wilson Pastor expects oil prices to return to \$70 to \$80/barrel

API Stocks

Crude – up 616,000 barrels
Distillate – up 1.518 million barrels
Gasoline – down 3.194 million barrels
Refinery runs – unchanged at 85.9%

Market Watch

The Conference Board said US consumer confidence increased for the third consecutive month in May. Its index of consumer attitudes increased to 63.3 in May, the highest level since May 2008 from a downwardly revised 57.7 in April. The expectations index increased to 85.3 in May from 77.4 while the present situation index increased to 30.2 from 28.2.

According to a Reuters survey, US crude oil is expected to average \$79.13/barrel in the second quarter of 2010, down from a previous estimate of \$80.20/barrel. US crude oil is expected to average \$80.22/barrel in 2010, down from a previous estimate of \$81.06/barrel.

Bank of America Merrill Lynch cut its 2010 oil demand growth forecast to 1.5 million bpd from 2 million bpd on an anticipated slowing in global growth in the second half of the year. It also lowered its US crude oil price forecast for the second half of 2010 to \$78/barrel from \$92/barrel.

Britain's official weather forecaster, the Met Office, said the North Atlantic could see above average tropical storm activity this year. It said indicators, such as sea-surface temperatures in the Pacific and Atlantic Oceans, currently suggest above normal activity for the upcoming season.

The Senate is set to vote in June on permanently stopping the EPA from regulating pollution linked to global warming from factories, utilities and oil refineries. The Republican effort is unlikely to become law. However a strong vote for the measure could further undermine chances for separate legislation to control emissions of carbon dioxide and other greenhouse gases that President Barack Obama wants. Senator Lisa Murkowski is pushing the bill to stop the EPA regulations that could go into effect as early as next January on large polluters.

following its recent decline due to the growing financial crisis in Europe and market speculation.

The EIA said world marketed energy consumption is expected to grow 49% from 495 quadrillion British thermal units to 739 quadrillion btu between 2007 and 2035, due to economic growth in developing nations. It reported that total marketed

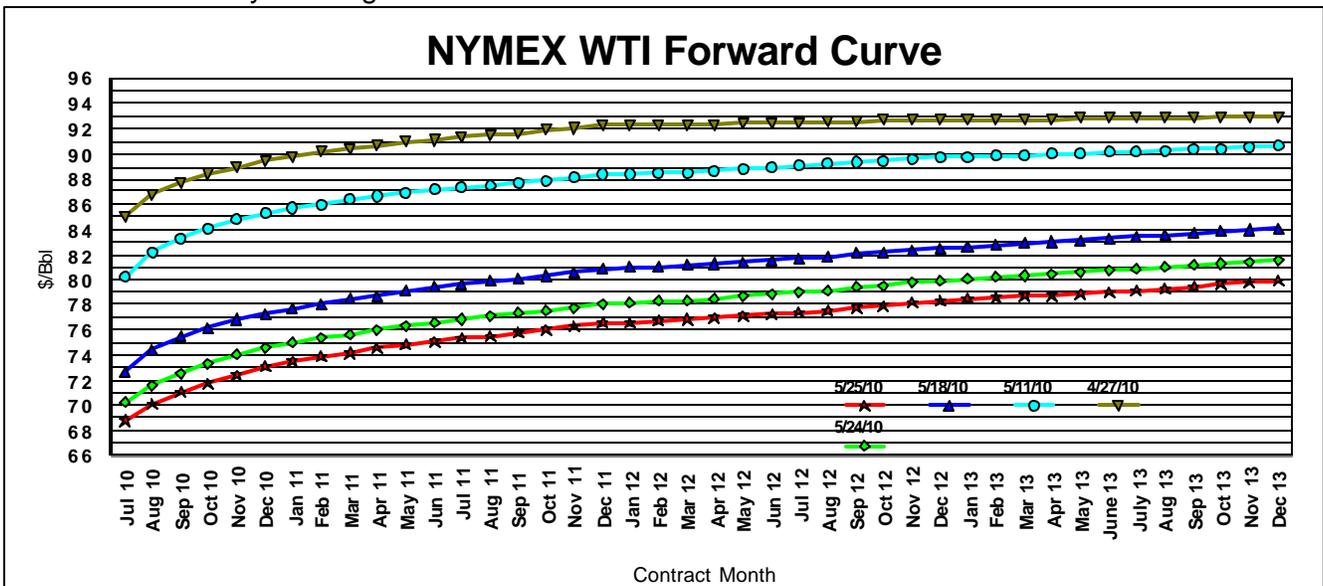
energy consumption contracted by 1.2% in 2008 and by an estimated 2.2% in 2009 as manufacturing and consumer demand for goods and services fell. It also reported that oil prices are expected to rise to \$108/barrel by 2020 and \$133/barrel by 2035. Petroleum and other liquid fuels remain the world's largest energy source through 2035 however higher oil prices will erode their share of total energy use to 30% in 2035 from 35% in 2007. Total liquid fuels consumption projected for 2035 is 110.6 million bpd, up 28% or 24.5 million bpd from the 2007 level of 86.1 million bpd. Conventional oil supplies from OPEC contribute 11.5 million bpd to the total increase in world liquid fuels production and conventional supplies from non-OPEC countries add another 4.8 million bpd. World production of unconventional resources, including biofuels, oil sands, extra heavy oil, coal-to-liquids and gas-to-liquids, which totaled 3.4 million bpd in 2007, is expected to increase to 12.9 million bpd in 2035.

**May
Calendar Averages**
CL – \$74.25
HO – \$2.0621
RB – \$2.1231

According to the SpendingPulse report, US retail gasoline demand fell by 0.6% to 9.362 million bpd in the week ending May 21st. US gasoline demand increased by 1.2% year on year. Over the past four weeks, gasoline demand increased by an average of 0.3% or 32,000 bpd on the year. The US average retail price of gasoline fell by 5 cents to \$2.83/gallon, up 20.4% on the year.

US Secretary of State Hillary Clinton said she had productive talks with China regarding the proposed UN Security Council resolution imposing sanctions against Iran over its nuclear program. She however said that the fuel swap plan Iran had proposed to the IAEA had deficiencies, which do not answer the concerns of the international community. Meanwhile, British Prime Minister David Cameron pledged to increase pressure on Iran, which he said was clearly intent on building nuclear weapons. He said he spoke to French President Nicolas Sarkozy and German Chancellor Angela Merkel about fresh European Union and UN sanctions against Iran. Separately, German Chancellor Angela Merkel called for the UAE to exert its influence to encourage a nuclear free Iran and held talks on Middle East peace efforts with the Emirati President Sheikh Khalifa bin Zayed al-Nahayan.

Iran's ambassador to Russia said Russia's reputation will be hurt if it fails to fulfill a contract to deliver S-300 advanced air defense missiles to Iran. Russia has agreed to the sale of the S-300 surface-to-air missiles to Iran but delayed delivery amid pressure from Israel and the US. The comments came after Iranian President Mahmoud Ahmadinejad voiced disappointment in Russia for its support of a new round of UN Security Council sanctions. Western diplomats have stated that Russia would be unable to deliver the S-300 missiles under the new sanctions resolution currently under discussion. However Russian lawmakers have said the sanctions would have no impact on the S-300 sale as the contract has already been agreed to.



BP said it would make another attempt to plug the leak on Wednesday but gave it only a 60-70% chance of success. The company plans to inject heavy fluids and then cement into the seabed well to block oil flow in a so-called top kill operation. It said it has the equipment in place and expects to start testing well conditions on Tuesday. BP said it was exploring a new way to siphon oil from a leak in the Gulf of Mexico while it prepares for another attempt this week to seal the damaged well. It said it plans to remove a damaged part of the well and put in place a tube to capture the oil and gas in what it called the "LMRP cap containment option." BP said it would be ready to try to fit the new tube by the end of the month. BP executives have warned there is no certainty the containment efforts will succeed because they have never been attempted at the depths where the well is located. If the short term efforts fail, it would take BP several months to drill a relief well to stop the leak.

An oil tanker was delayed cleaning before entering the Mississippi River from the Gulf of Mexico on Tuesday. The vessel was believed to be the first cargo vessel or tanker requiring cleaning before being allowed in port since the April 20th explosion of a BP well offshore Louisiana. The ship was identified as a petroleum products tanker.

A Yemeni official said an air strike in Yemen targeting al Qaeda missed its mark and killed a mediator by mistake, prompting members of his tribe to sabotage an oil pipeline, which transports crude from Maarib to the Red Sea coast, in clashes that followed. The Yemeni mediator had been trying to persuade members of al Qaeda to surrender. Separately, a Yemeni government official said a US couple taken hostage by tribesmen was released on Tuesday, a day after they were seized.

Refinery News

According to Euroilstock, total refinery output in 16 European countries stood at 10.938 million bpd in April, down 1.2% on the month and 11.8% on the year. Gasoline production in April fell by 1.2% on the month and by 12.5% on the year to 2.695 million bpd while middle distillate production fell by 3.1% on the month and by 13.5% on the year to 5.46 million bpd and fuel oil production fell by 0.1% on the month and by 6.9% on the year to 1.367 million bpd. Refinery utilization increased to 80.13% in April from 80.05% in March but fell from 86.35% last year. Crude intake increased by 0.1% on the month but fell by 7.2% on the year to 10.497 million bpd.

BP Plc said failure of a compressor at its 475,000 bpd refinery in Texas City, Texas shutdown several operating units. It said the residual hydrotreating unit was one of the units shutdown by the power outage. Separately, a brief flaring event at BP's 225,000 bpd Cherry Point refinery in Blaine, Washington on Monday had no impact on operations.

Tesoro Corp's 100,000 bpd Wilmington, California refinery reported a small hydrocarbon release from a line which was isolated.

Sunoco Inc restarted a fluid catalytic cracking unit at its 178,000 bpd Marcus Hook, PA refinery on Saturday.

PDVSA was again forced to shut its 95,000 bpd fluid catalytic cracking unit at the Cardon refinery after the unit was hit by a third fire following recent expansion work. The incident at the Cardon refinery and a problem with the fluid catalytic cracking unit at its El Palito refinery, could derail its plans to export 4 RBOB cargoes in May. PDVSA has temporarily lost 165,000 bpd of catcracking capacity. PDVSA will attempt to restart the catcracking unit at its Cardon refinery late Tuesday.

South Korea's SK Energy has restarted its 60,000 bpd crude distillation unit No. 1 following a 15 day maintenance shutdown.

Brazil's Petrobras is revising its plans for the Comperj petrochemical refinery. It said the company is considering including a module that would double refining capacity from the currently projected 165,000 bpd.

China's Sinopec Corp said equity held by foreign investors in China's refining capacity is expected to reach the equivalent of 31.5 million metric tons a year by 2015 or three times the current level. China will continue to provide access to domestic markets in exchange for secure supplies of energy from overseas. Total annual refining capacity will increase 6.4% to 508 million tons or about 10 million bpd by the end of the year and to 750 million tons by the end of 2015.

Sinopec Corp's trading unit Unipec is shipping about 600,000 barrels of gasoline from Singapore to Iran for June arrival. It last made a direct shipment to Iran in April.

Malaysia's coastguard said a Malaysian flagged oil tanker that collided with a bulk carrier on Tuesday was carrying 61,858 tons of crude. The tanker was carrying two types of cargo, about 40% of condensate and about 60% of light crude.

Production News

Crude oil production at the 200,000 bpd Buzzard field in the North Sea was still well below normal levels last week due to planned maintenance. Crude from the Buzzard field accounted for 11% of total output of Forties crude in the week ending May 23rd, unchanged from the previous week. It is below the normal level of more than 30%. Based on planned production of 483,871 bpd of Forties in May, output from Buzzard was about 53,000 bpd last week.

Norway's Statoil ASA said the well that shut the North Sea Gullfaks C platform still had unstable pressure and added that it was still unknown when the platform would resume operations. On Friday, Statoil evacuated and shut the Gullfaks C platform after changes in well pressure led to a fault on one of two valves designed to prevent an explosion. Gullfaks field has cut its production by 60,000 to 70,000 bpd of oil equivalent, down from a production level of 78,000 bpd and 420 million standard cubic meters of gas/year. The satellite fields, Tordis, which produces 46,000 bpd of oil and 50 million standard cubic meters of gas/year and Gimle, which produces 10,000 bpd of oil, were also shut.

Danish Underground Consortium's oil and gas output fell to 212,900 bpd in April from 229,700 bpd in March. Last year, oil and condensate production stood at 237,500 bpd. DUC exports of natural gas fell to 650 million cubic meters in April from 710 million cubic meters in March but was up from 580 million cubic meters last year.

Nigeria plans to export seven cargoes of Forcados crude and six of Bonga crude in July.

Italy's Eni hopes to increase output at Iraq's Zubair oilfield to at least 250,000 bpd. Current output from the oilfield is about 180,000 bpd.

Indonesia's Pertamina plans to increase its crude oil production to 1 million bpd of oil equivalent by 2015 from its current level of 432,000 bpd. It also plans to increase its refinery capacity to 1.5 million bpd from 1 million bpd this year. The increase in oil production and refinery capacity, if achieved, would pave the way for Indonesia to cut the import of oil products.

OPEC's news agency reported that OPEC's basket of crudes increased slightly to \$68.59/barrel on Monday from \$68.47/barrel on Friday.

Market Commentary

Global tensions weighed on energy prices today as concern mounted that the European debt crisis will spread and that confrontations between North Korea and South Korea may lead to warfare. Investors shied away from commodities, turning to the dollar as a financial hedge, adding to the bearish move in energies. Crude oil is now below OPEC's target range of \$70-\$80 a barrel and appears to have reestablished a new range between \$75.00 and \$65.00. OPEC ministers today however stated that they are not concerned about the fall in prices and have no plans to call for an emergency meeting. The strength in the July/August crude oil spread, which has gained \$1.50 since May 13th, is more a reflection of weakness in the deferred contracts as hopes of a more promising future for demand diminishes. Upon examination of a volume weighted chart, the July/August crude oil spread has settled above a key resistance level of -\$1.40. With a settlement above this level, this spread could gradually work towards -\$1.00 and possibly beyond. Technically, we would look for a bit of a correction to the upside with \$74.50-\$75.00 area.

The API reported a slightly higher than expected build in crude stocks of 616,000 barrels on the week, with a large build of 3.065 million barrels in Padd 5. It showed that crude stocks in Padd 3 fell by 1.019 million barrels. It reported the build in stocks despite the fall in total imports of 1.559 million bpd to 9.421 million bpd and a small increase in crude runs of 9,000 bpd to 14.756 million bpd on the week. The API also reported a larger than expected build in distillate stocks of 1.518 million barrels, with a build of 1.144 million barrels in Padd 2 alone. It reported the build as apparent demand fell by 7.5% on the week to 4.139 million bpd. It also showed that imports increased by 52,000 bpd or 24.8% to 262,000 bpd while production fell by 125,000 bpd to 4.094 million bpd. Meanwhile gasoline stocks saw a larger than expected draw of 3.194 million barrels on the week. It reported a draw of 1.839 million barrels in Padd 3. It reported the draw in stocks as apparent gasoline demand increased by 5% on the week to 9.573 million bpd and apparent demand basis its three week moving average increased by 2.5% to 9.361 million bpd. Gasoline stocks also fell as production fell by 125,000 bpd or 1.4% to 9.01 million bpd and imports fell by 14,000 bpd or 11.6% to 107,000 bpd.

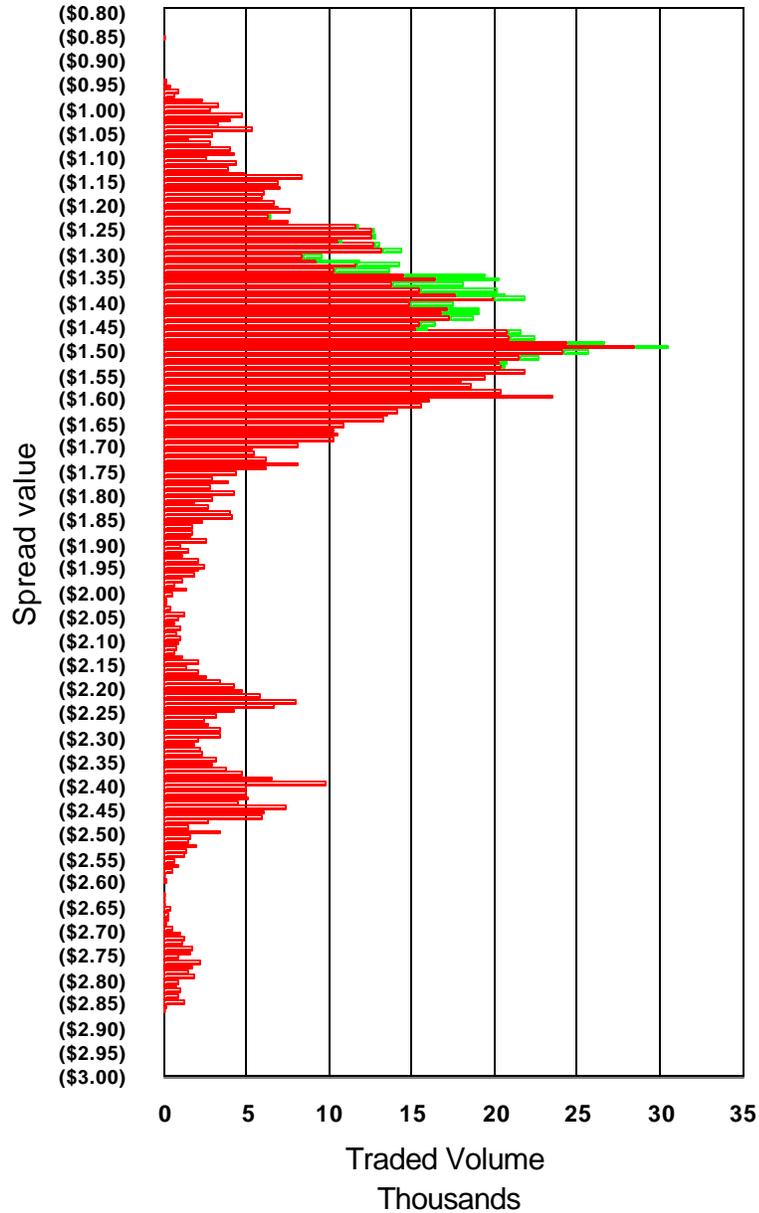
Crude oil July 10 390,449 -6,582 Aug 10 114,463 +101 Sept 10 99,081 +310 Totals 1,342 554 -1,748 Heating oil June10 29,036 -7,101 July 10 72,298 +3,642 Aug 10 37,042 +610 Totals 306,954 -1,108 Gasoline June10 33,973 -5,082 July 10 85,118 +102 Aug 10 38,949 +1,324 Totals 264,837 -3,015.

Crude Support	Crude Resistance
65.55, 64.20, 63.38, 62.70, 61.61, 60.95	71.20, 72.25, 73.25, 75.00, 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

NYMEX Jly - Aug WTI Spread

Traded Volume Skew
April 21 - May 25, 2010

■ April 21- May 24th ■ May 25th



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