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## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR MAY 26, 2009**

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Saudi Oil Minister Ali al-Naimi told reporters today that while Saudi Arabia could live with oil prices around \$50 per barrel to help heal the global economy, he noted that such a price is lower than producers need to ensure investment in new supplies. He repeated the claim that \$75-\$80 a barrel for oil is a fair price for the longer term and hoped to see it by the fourth quarter of this year. He hoped oil demand would rise in the third and fourth quarters of this year and said there is already signs of a rise in fuel consumption. He also noted that the cartel would not consider increasing its production levels until global stocks fall back towards historical levels such as 53 days of forward supply, nearly 10

#### **Market Watch**

The Conference Board reported this morning that U.S. consumer confidence soared in May to its highest level in eight months, to 54.9, up from a revised 40.8 in April. This was the biggest one-month jump since April 2003. Market consensus had been for the index to rise to only 42.

Germany reported that its gross domestic product, which is the largest in Europe, declined 3.8% in the first quarter of 2009, a record contraction since the country was unified.

The European Union reported today that Euro zone industrial new orders plunged in March but by a smaller margin in annual terms than the reports over the prior two months. The report showed a 0.8% month-to-month decline and a 26.9% year-on-year decline.

Reuters reported that according to its recent poll of 30 oil analysts the price consensus of the group was that oil prices would average \$52 a barrel for 2009. This was the second consecutive month that analysts raised their price outlook. In April the group had been looking for an average price of \$50.85.

China's power output shipped over its grid system fell 0.57% from a year earlier in the middle of May after declining 3.9% in early May. Mid May power output was the strongest since February.

The independent research organization, the Committee on Capital Markets said today that the Federal Reserve should oversee threats to the financial system, not a council of regulators. The group called for one regulator, which needs the authority and accountability to "regulate matters pertaining to systemic risk." The group supported the newly created body; the U.S. Financial Service Authority should consolidate agencies such as the SEC, the FDIC, the CFTC and the Office of Thrift Supervision. The committee also called on the need for hedge funds to report information such as their total assets under management, credit counter parties and short positions to a regulator, not the public.

According to documents released today by the Fed, it showed that concerns over the economic outlook prompted the directors of all 12 regional Federal Reserve banks to vote to keep the discount rate unchanged at 0.5% in April.

Israel's Deputy Defense Minister outlined that next Tuesday, June 2<sup>nd</sup> the country will hold a nationwide civil defense exercise that would require the entire population to move to the nearest bomb shelter or protected sites on the signal of sirens blaring across the nation. He also noted that upgraded "gas masks" would be redistributed to the population later this year. Some have noted that his drills and preparations are in preparation of a potential attack on Iran.

days of forward supply less than current levels. While he said it appeared that OPEC would leave production levels unchanged when the cartel meets on May 28<sup>th</sup>, he declined to say there was consensus among all OPEC members for this production policy.

Libya's oil minister said Libya would support any output decision that the OPEC ministers reach at its meeting on Thursday.

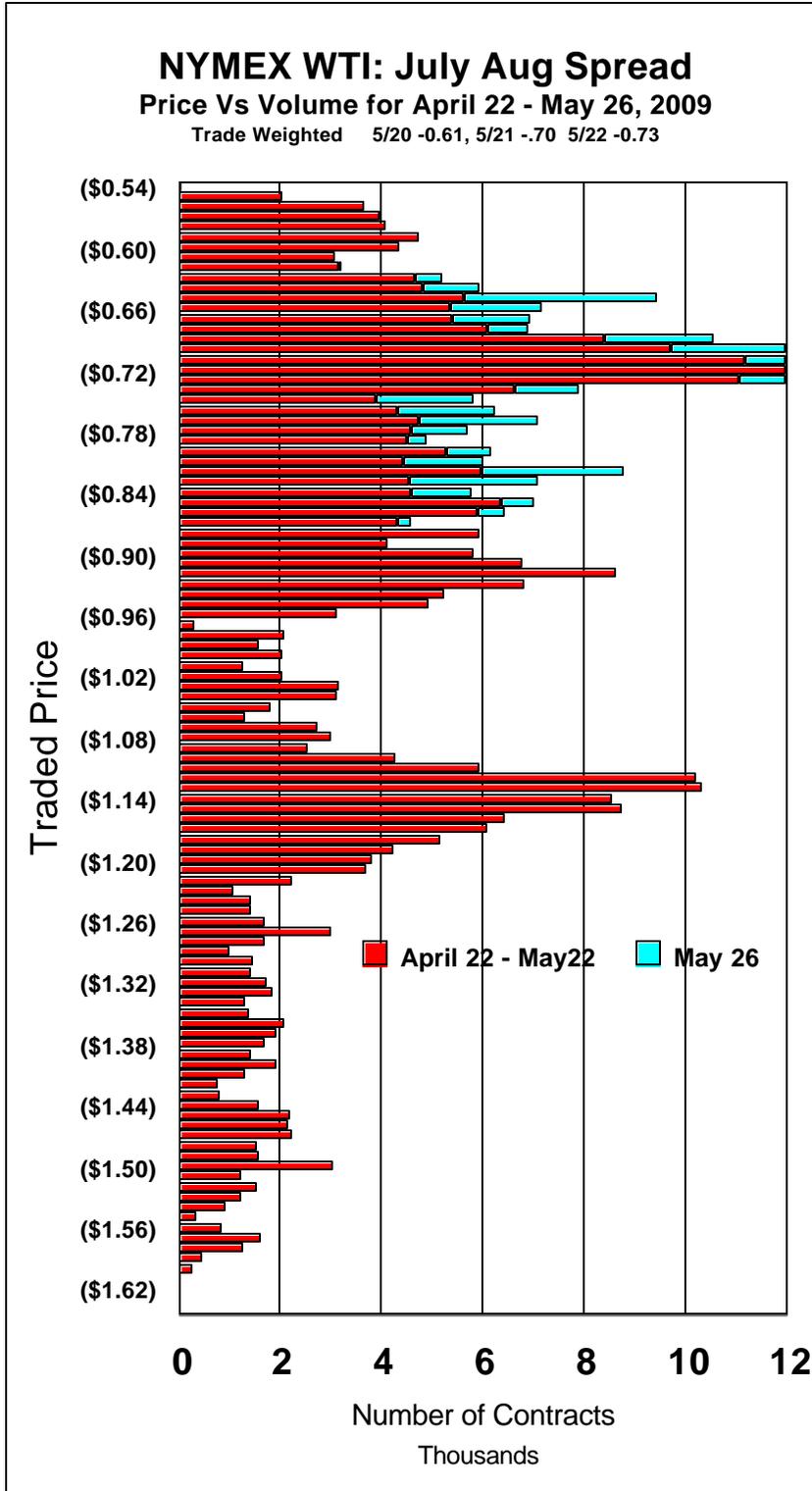
Iran's oil minister said an \$80 crude price would be an appropriate level for the development of oil fields in producing countries.

Algeria's oil minister told Reuters on Monday that all OPEC members have agreed that there is no need for an output cut.

French President Sarkozy said today that he planned to propose talks between oil producers and consumers to find a "satisfactory level" for prices to combat volatility and dissuade market speculators. He felt an agreed upon price range would guarantee investments in producer countries over the long term but would not overwhelm consumer economies.

The CEO of Vitol said today that the narrowing contango in the oil markets has been leading traders to unwind their stockpiling or storage play. He also noted that there are some signs of recovery in global macroeconomic data and as a result \$60 per barrel should be sustainable.

The CME has adopted new NYMEX procedures that call for settlement prices for oil and natural gas contracts to be based exclusively on electronic trading prices in the closing minutes of each day's trade. The new procedures affect the first six month contracts for crude oil, natural gas, heating oil and RBOB effective June 1<sup>st</sup> between 14:28 to 14:30 EDT. According to the advisory, the NYMEX staff will settle the front month contract at



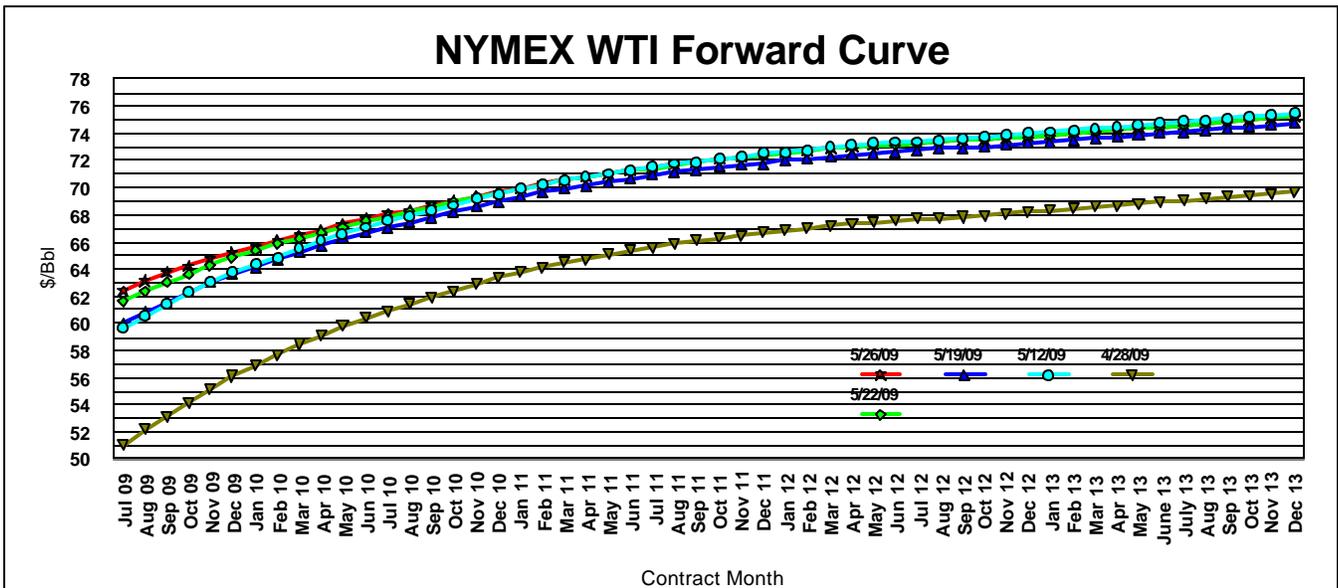
the volume weighted average price of the outright trades executed on Globex during the close, rounded to the nearest tradable tick. The second contract month will be settled to the price implied from the volume weighted average price (VWAP) of the first/second month spreads that are traded on Globex during the close, using the front month settlement as the anchor price. The third through sixth contract months will be settled in chronological order base don price implied from the VWAPs of the one month and two month spreads that are traded on Globex during the close, provided that certain volume thresholds are met. Contract months beyond the sixth listed contract months will be settled by the NYMEX staff "in conjunction with market participants, based upon relevant spread relationships. The greatest weight will be given to spreads executed in large volumes late in the trading day, either on Globex or on the trading floor.

**May Calendar Averages**  
**CL – \$58.20**  
**HO – \$1.4854**  
**RB – \$1.7052**

**Refinery News**

China reportedly will reduce diesel exports for June by a third from may levels to 170,000 tonnes due to stockpiling on hopes of a retail price increase. Sinopec, which supplies more than half of the Chinese oil market, has seen rising fuels sales, with daily average sales for May hitting 330,000 to 340,000 tonnes. Meanwhile the Chinese National Energy Board reported that it expects China's consumption of crude oil will likely increase by 3.9% in 2009 and its net imports of crude will grow by 6.2%.

Imperial Oil reported that it has taken several units down for maintenance at its 187,000 b/d Strathcona refinery in Alberta. The units could be down for more than a month.



Credit Suisse said in its weekly refinery margin report that U.S. refinery margins in most regions rose last week. Midwest margins saw the biggest gains, up \$4.63 to \$13.47 a barrel, while Gulf Coast margins increased by \$1.10 to \$10.95 per barrel. Margins in the Rockies though fell by 32 cents to \$16.52 per barrel.

Colonial Pipeline said today that it was allocating nominations for distillates fuel shipments on its Atlanta, Georgia to Nashville, Tennessee line for cycle 31.

Sunoco reportedly Tuesday was forced to shut down its 85,000 b/d catcracker at the Girard Point segment of the Philadelphia refinery due to a mechanical breakdown.

The EIA reported today that the average retail price for diesel fuel rose 4.3 cents a gallon to \$2.274 a gallon in the week ending Monday. Prices rose in all regions with the Midwest leading the way.

**Production News**

According to various loading programs announced for June shows that 2.072 mbd are expected to be loaded in the month down 7.3% from May.

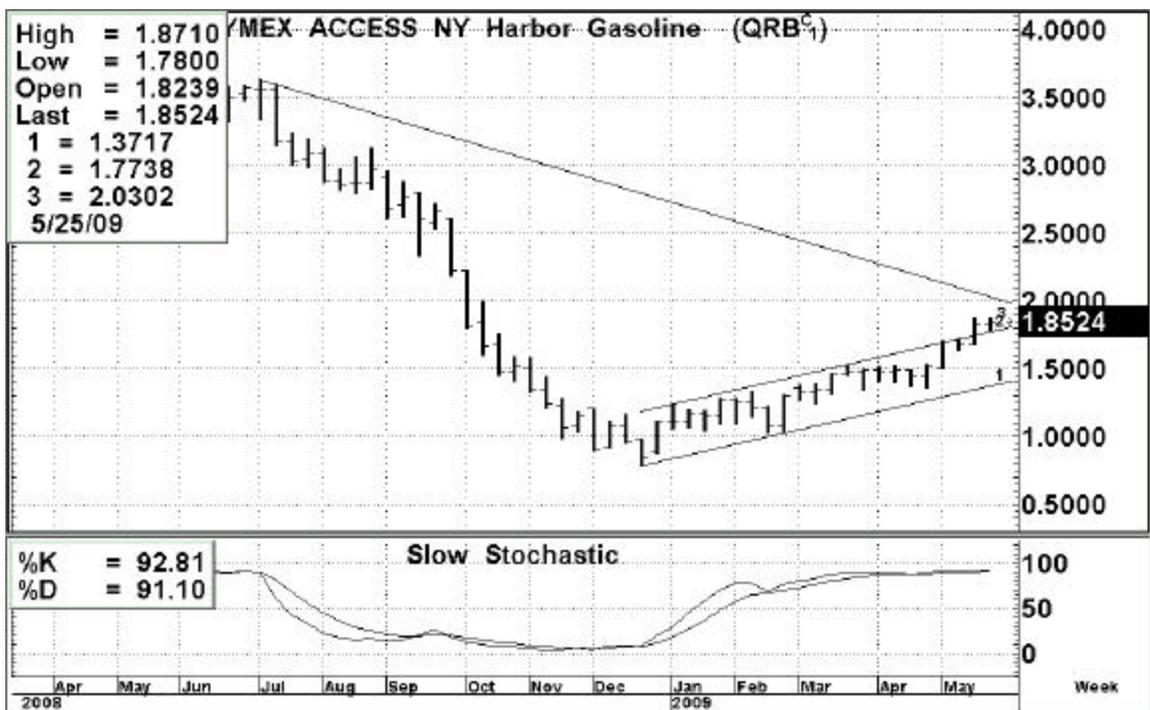
Eni SpA announced it has lifted its force majeure for Nigeria’s Brass River export terminal, which had been in effect since May 20<sup>th</sup>.

Nigeria reportedly has raised its official selling price for June Bonny Light crude to dated Brent plus \$1.00 a barrel, down from plus 60 cents in May.

Reuters reported that despite a series of militant attacks that have led to a series of force majeure declarations, trade sources expect Nigerian crude exports are likely to be above the country’s OPEC output quota again in July. Nigerian crude loading for June are projected to be 1.92 million b/d with July liftings estimated at 2.03 million b/d. The country’s implied quota is 1.67 mbd. Nigeria’s oil minister on Monday estimated the country’s current output at 1.5-1.6 mbd. Nigerian militants launched their first major strike against the oil industry on Sunday as it bombed a Chevron pipeline and shut in 100,000

b/d of production. Militants attempted to attack an off shore drilling platform on Tuesday but security forces repelled the attack.

OPEC’s reference crude oil price fell slightly Monday to \$58.57 on Monday, down from Friday’s \$58.75.



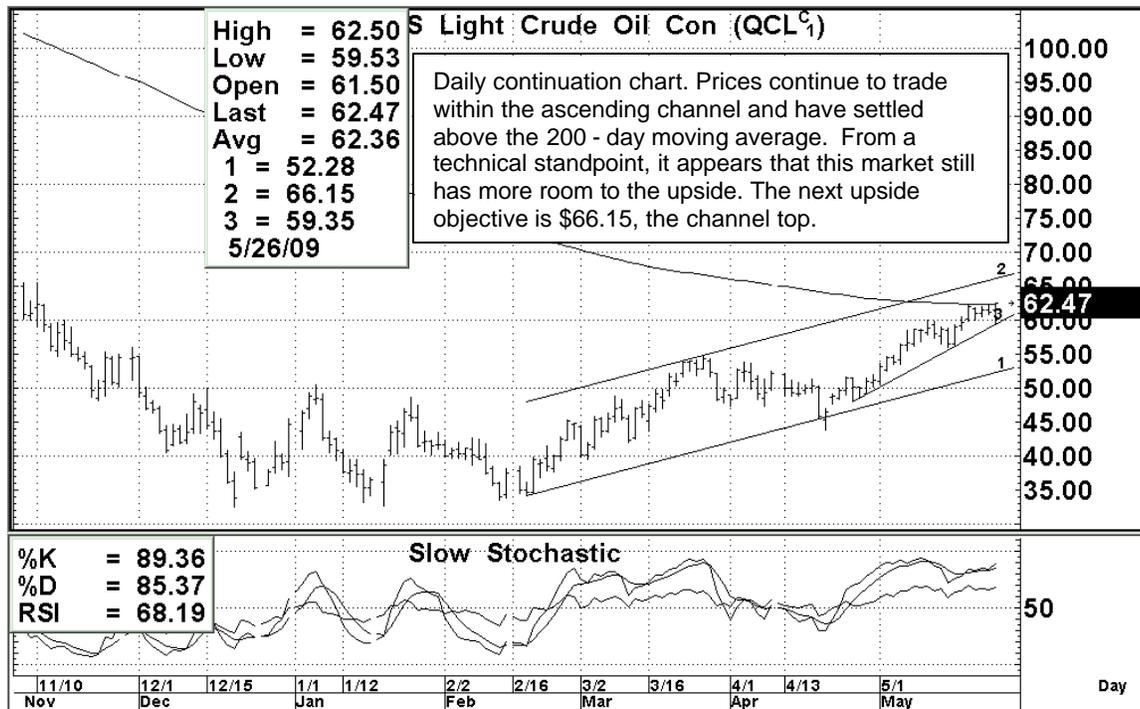
**Market Commentary**

Crude oil rose along with the stock market, in response to a report that U.S. consumer confidence was up, sending hopes of greater demand through the marketplace. This is just a glimmer of hope for the struggling economy and it is still too early to tell if the end is near. U.S. inventories remain high and are near 370 million barrels. Demand continues to suffer with demand for gasoline down 1.2% on the year and demand for distillate down 12% on the year. We would have to see steady climbs in demand before we can be too optimistic about this market. The July crude oil contract traded and settled above the \$62.36, 200 – day moving day moving average. Despite being in over bought territory, slow

stochastics have not crossed to signal a shift in market direction. The June gasoline continues to follow the seasonal play mentioned in our previous wire and should continue to do so.

Market expectations for this week's inventory reports appear to be centered around a 1.1 million barrel drawdown in crude oil stocks followed by a 1.8 million barrel drop in gasoline. Distillate stocks are seen increasing by 900,000 barrels with refinery utilization to have improved by 0.2% to 82% of capacity.

Crude Oil JUL.09 342,463 -2,431 AUG.09 91,756 -1,912 SEP.09 70,236 -846  
 OCT.09 41,834 -819 Totals: 1,098,915 -4,601 N.Y. Heating Oil (HO) JUN.09 26,367 -2,485 JUL.09  
 57,019 +746 AUG.09 26,361 +1,164 SEP.09 19,206 -359 OCT.09 14,428 -112 Totals: 266,665 + 213  
 NEW YORK HARBOR RBOB (JUN.09 36,521 -3,816 JUL.09 91,897 +510 AUG.09 34,700 -166  
 SEP.09 24,864 +809 OCT.09 16,469 +78 Totals: 238,068 -1,739



|   |   |
|---|---|
| <b>Crude Support</b>  | <b>Crude Resistance</b>                   |
| 60.50<br>, 59.85, 58.90, 56.75, 55.45, 54.49, 53.45, 52.33                      | , 65.55, 67.65,                           |
| <b>Heat Support</b>   | <b>Heat resistance</b>                    |
| 1.2715, 1.2300, 1.1359, 1.1095, 1.0520  | 1.5520, 1.6025, 1.6475, 1.6688,<br>1.6715 |
| <b>Gasoline support</b>   | <b>Gasoline resistance</b>                |
| 1.5370, 1.5260, 1.3560, 1.3400, 1.3180, 1.2700, 1.2625<br>1.1680, 1.0128, .9590 | 1.8800, 2.0650, 2.1600                    |



|  |   |
|--|---|
| <b>Crude Support</b>   | <b>Crude Resistance</b>                   |
| 60.50<br>59.85, 58.90, 56.75,55.45,54.49, 53.45, 52.33                 | 62.37, 65.55, 67.65,                      |
| <b>Heat Support</b>  | <b>Heat resistance</b>                    |
| 1.2715, 1.2300, 1.1359, 1.1095, 1.0520                                 | 1.5520, 1.6025, 1.6475, 1.6688,<br>1.6715 |
| <b>Gasoline support</b>  | <b>Gasoline resistance</b>                |
| 1.5370, 1.5260, 1.3560, 1.3400, 1.2700, 1.2625<br>1.1680,1.0128, .9590 | 1.8800, 2.0650, 2.1600                    |

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