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## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR MAY 26, 2011**

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The API said fuel exports, lower refinery runs and speculation played no part in the recent rise of US gasoline prices. API chief economist John Felmy said the real culprit is the increasing cost of crude.

According to Oil Movements, OPEC's oil exports are expected to increase by 370,000 bpd to 23.11 million bpd in the four weeks ending June 11<sup>th</sup>.

Iran's OPEC Governor Muhammad Ali Khatibi said a fall in oil prices this month shows there is no overall shortage of crude on the market. He confirmed the group remains unlikely to change its output ceiling when it meets on June 8<sup>th</sup> in Vienna.

#### Market Watch

The US Commerce Department said the US economy grew at a slower pace in the first three months of 2011. It reported that GDP grew at an inflation adjusted annual rate of 1.8% in the first quarter after growing by 3.1% in the fourth quarter of 2010. The report showed that inflation increased due to higher commodity prices. The price index for personal consumption expenditures increased by 3.8% in the first quarter compared with a 1.7% increase at the end of 2010.

The US Labor Department said initial unemployment benefit claims increased by 10,000 to a seasonally adjusted 424,000 in the week ending May 21<sup>st</sup>. The prior week's figure was revised up to 414,000 from an originally reported 409,000. The four-week moving average of new claims fell by 1,750 to 438,500 on the week. It reported that the number of continuing unemployment benefit claims fell by 46,000 to 3,690,000 in the week ending May 14<sup>th</sup>. The unemployment rate for workers with unemployment insurance was 2.9% in the week ending May 14<sup>th</sup>, compared with 3% a week earlier.

The Federal Reserve Bank of Kansas City's monthly manufacturing index stood at -2 in May compared with +17 in April.

The Federal Trade Commission said Irving Oil must give up its rights to certain terminal and pipeline assets in Maine acquired from ExxonMobil. It said this would maintain competition in gasoline and distillate terminal services in the South Portland and Bangor/Penobscot Bay areas.

The Intercontinental Exchange announced the launch of 48 new energy contracts for power, natural gas and global refined petroleum products. The new contracts would be available for trading on Monday, June 13, 2011.

Barclays Capital said commodities saw inflows of \$5.8 billion in April increasing total investments to a record high of \$451 billion. It said that year to date flows in commodities totaled about \$23 billion or \$6.8 billion higher than over the same period in 2010.

Lipper data showed that monthly inflows to commodity based products and mutual funds fell to \$1.3 billion in April, just before commodities saw its biggest correction since 2008. Net inflows to US regulated commodity products fell from \$4.1 billion in March as investors exited some energy and broad index funds and focused on precious metals. The Reuters-Jeffries CRB index increased about 3% in April. For May, the index is headed for a loss of 7% as commodities sold off. The US Oil Fund USO saw the largest outflow in April, reversing almost a third of March's inflows.

Air China and other major Chinese carriers increased their fuel surcharges for domestic routes for the third time this year to help offset the rising price of oil.

**May  
Calendar Averages**  
**CL – \$101.33**  
**HO – \$2.9576**  
**RB – \$3.0930**

The head of Venezuela’s PDVSA, Rafael Ramirez said the US could “go to hell” after it imposed sanctions on the company over alleged ties to Iran. He said the sanctions mean nothing to Venezuela and added that no one was going to impose this kind of action against the country. Venezuela’s Foreign Minister Nicolas Maduro said he need to evaluate the real effect of the US measure before determining what may be an appropriate reprisal. He however downplayed the possibility that the country would cut fuel shipments

to the US.

The US ordered all non-essential diplomats and embassy family members to leave Yemen amid increasing violence between loyalists and opponents of President Ali Abdullah Saleh. Clashes between the two sides flared after the collapse of a transition deal on Sunday. There was heavy fighting in the Yemeni capital of Sanaa on Thursday. More than 40 people have been killed since Monday. Each side blamed the other for the violence, which the opposition said could start a civil war.

**Refinery News**

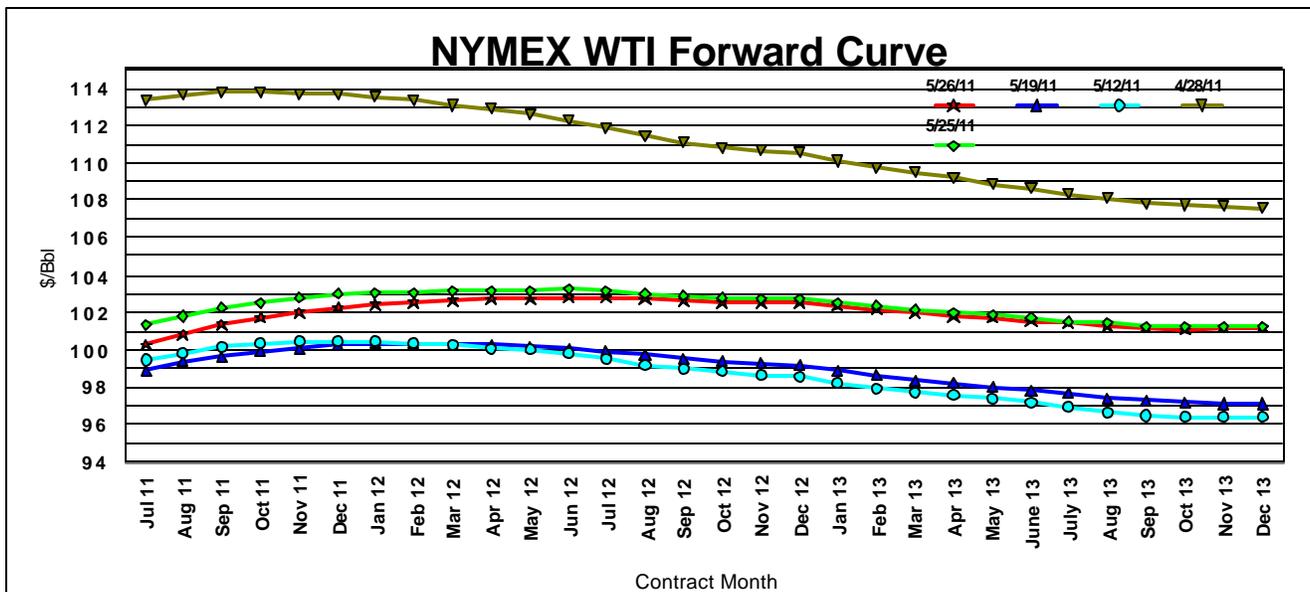
Kinder Morgan Energy Partners said it would ration space on a portion of its Platte pipeline system next month as its customers requested more space on the line than it could handle. It said shippers on the Guernsey, Wyoming to Wood River, Illinois segment of the line would be able to deliver 77% of nominated volumes.

Colonial Pipeline allocated Cycle 31 shipments on its Line 20 carrying distillates from Atlanta, Georgia to Nashville, Tennessee.

Spot gasoline in the Chicago gasoline market rallied on Thursday due to strong refinery buying. ExxonMobil and Marathon Oil reported outages at their plants in the past few days.

BP warned of planned flaring at its 265,000 bpd Carson, California refinery. It said flaring was expected to occur starting May 27<sup>th</sup> until June 3<sup>rd</sup>. Separately, BP is restarting units at its 225,000 bpd Cherry Point refinery in Washington State after completing planned maintenance. It is restarting a crude distillation unit, coking unit and reformer unit at the refinery. The units were shut in April to perform routine maintenance.

Total SA said a brief power failure at its 232,000 bpd refinery in Port Arthur, Texas resulted in a shutdown of its coking unit on Thursday. The unit was restarted as soon as possible.



Marathon Oil Corp is restarting units at its 206,000 bpd refinery in Robinson, Illinois after the units were shut due to a power outage on Wednesday.

ExxonMobil reported emissions at its 238,600 bpd refinery in Joliet, Illinois due to overpressure. The refinery reported emissions for the fourth time since Monday.

Pasadena Refining reported a problem in an alkylation unit at its 100,000 bpd Pasadena, Texas refinery on Thursday.

India's Hindustan Petroleum Corp plans to shut a 60,000 bpd crude unit and a 1 million ton/year fluid catalytic cracking unit at Vizag for about 45 days from November for maintenance.

The Petroleum Association of Japan said demand for direct burn crude for power generation from Japanese utilities has doubled after the earthquake and tsunami in March shut several nuclear and thermal plants. Japan's ten main utilities consumed 83,000 bpd of crude in April, up 119.8% on the year.

Gasoline inventories held in independent storage in the Amsterdam-Rotterdam-Antwerp area in the week ending May 26<sup>th</sup> fell by 10.82% on the week and by 32.45% on the year to 585,000 tons. Gasoil stocks fell by 2.22% on the week but increased by 12.73% on the year to 2.86 million tons while fuel oil stocks increased by 6.28% on the week but fell by 13.27% on the year to 778,000 tons. Naphtha stocks fell by 21.31% on the week and by 4% on the year to 48,000 tons while jet fuel stocks fell by 3.87% on the week and by 37.15% on the year to 472,000 tons.

Singapore's International Enterprise stated that the country's residual fuel stocks fell by 771,000 barrels to 21.717 million barrels in the week ending May 25<sup>th</sup>. It also reported that Singapore's light distillate stocks fell by 390,000 barrels to 9.71 million barrels and its middle distillate stocks built by 1.38 million barrels to 11.954 million barrels on the week.

China Aviation Oil has turned to a seller this month in a move that could signal the company's intention to expand its trading activity in the spot market. It sold four 100,000-barrel parcels in the Singapore pricing window for late-May to early June delivery since the start of the month.

### **Production News**

Kuwait notified at least one Asian term buyer that it would supply crude during the July-September period at 5% below contracted volumes, steady from the April-June period.

The UAE's Abu Dhabi National Oil Co said it would reduce its July Murban crude oil term supply to Asian customers by 10% compared with 5% in June. It said its Lower Zakum, Umm Shaif and Upper Zakum crude would be supplied at contracted volumes in July.

Iraq has extended until June 6<sup>th</sup> a deadline to receive documents from international companies wishing to register to compete for the fourth hydrocarbons bidding round, instead of the previously announced May 19<sup>th</sup> deadline. It is planning to hold the new bidding round in January 2012 to explore for oil and gas in 12 exploration blocks.

Brazil's National Petroleum Agency said the country's first auction of a pre-salt oil field under the country's new production sharing regime is being held up by congressional debate over how to divide royalties. Brazil's Lower House is discussing how to divide royalties between Brazil's states, cities and the federal government as part of an overhaul of the country's oil laws.

Syria cut the price of diesel by 25% on Wednesday in an apparent attempt to curb unrest in the country. The move was in response to citizens' demands and economic and social considerations. Syria is expected to spend 175 billion Syrian pounds or \$3.9 billion on fuel subsidies this year compared with a planned 150 billion Syrian pounds.

A panel of ministers in India may meet on June 9<sup>th</sup> to discuss raising diesel, kerosene and cooking gas prices.

**Market Commentary**

Oil retreated from its two-week high on signs that the U.S. economy continues to struggle. Disappointing figures for the gross domestic product in the U.S. combined with an increase in the jobless rate and heightened fears that demand for oil would remain weak. With the supply/demand situation in a stagnant state, concerns regarding shortfalls due to seasonal need, appear to be calm. The July contract fell 1.1 percent, finishing the day at \$100.23. Coming into tomorrow's long weekend session, we would look for additional length lightening and for the July contract to trade within the \$101-\$95.00 trading range.

Crude oil: July 11 394,471 -3,157 Aug 11 92,443 -1,351 Sept 11 98,248 +1,897 Totals 1,515,440 -6,636 Heating oil: June 11 25,644 -8,033 July 11 98,563 +2,983 Aug 11 38,268 +2,523 Totals 309,837 -957 Rbob: June11 23,763 -8,899 July 11 86,192 +1,826 Aug 11 25,294 -1,777 Totals 261,686 -7,181

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
9620	10300		31325		
9535	10845	27695	32777		33369
9284	11120	26680	33370	26965	35915
8700	11483	27375	33510	26300	36310
8625	11563	23685		25683	
8500	11703	22960		25145	
8385	12126			24240	
	14933			23631	
				23414	

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