



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR MAY 27, 2010

President Barack Obama announced a halt to drilling operations at all 33 deepwater exploratory rigs in the Gulf of Mexico for 6 months or until a presidential commission completes its work. Some of the rigs are already drilling and will have to halt its operations while others were preparing to drill. US Interior Secretary Ken Salazar unveiled a series of measures in the wake of the BP leak. He said new drilling will be allowed for wells in depths of less than 500 feet of water. He said the Interior Department will require that blowout preventers at offshore exploratory wells be certified to ensure they are working properly. He said the 6 month ban on deepwater permits does not affect oil and natural gas prices. In response to the measures, an energy consulting group said the six month extension of the drilling ban would cut 80,000 bpd of US oil production that was expected in 2011.

Algeria's Energy Minister Chakib Khelil said signs are already appearing that world oil prices are rebounding as a result of improvements in the world economy.

Market Watch

The US Labor Department reported that the number of initial claims for unemployment benefits fell by 14,000 to 460,000 in the week ending May 22nd. The previous week's level was revised up to 474,000 from 471,000. The report showed that the four week moving average increased by 2,250 to 456,500 from the previous week's revised average of 454,250. The number of continuing claims fell by 49,000 to 4,607,000 in the week ending May 15th. The unemployment rate for workers with unemployment insurance in the week ending May 15th was 3.6%, unchanged from the previous week.

The Commerce Department said the US economy grew in the first quarter, but its pace was slightly weaker than originally thought. GDP increased by a 3% annual rate in the first quarter. The Commerce Department had originally reported first quarter GDP increased by 3.2%. The latest report showed that consumers increased their spending by 3.5%.

The National Oceanic and Atmospheric Administration expects between eight and 14 hurricanes in the coming Atlantic hurricane season, with three to seven of those Category 3 or above hurricanes. It anticipates 14 to 23 named storms this season.

According to the US Naval Research Laboratory, hurricanes could rupture underwater oil and natural gas pipelines in the Gulf of Mexico. It said disruption of the seafloor can reach depths of 300 feet from destructive currents, which can continue for up to a week after the hurricane passes.

The API's weekly petroleum stock report will be delayed until Wednesday, June 2nd at 4:30pm EDT and the EIA's report will be delayed until Thursday, June 3rd, at 11 am EDT due to the Memorial Day holiday.

Agriculture Committee chairman Blanche Lincoln, the author of a US Senate proposal to force banks to spin off their swaps desks said she will fight to see the idea is part of a House-Senate compromise on financial regulatory reform. Her committee wrote the section on regulation of the \$615 trillion market in over-the-counter derivatives, including the provision on swaps desks.

**May
Calendar Averages**
CL – \$74.13
HO – \$2.0514
RB – \$2.1106

BP Plc said its "top kill" operation was proceeding the way it wanted but added that it was still too early to say whether the procedure had worked.

Genscape reported that oil inventories at the Cushing, Oklahoma crude oil hub increased by 478,000 barrels to a record 39.9 million barrels in the week ending May 25th.

According to Oil Movements, OPEC's oil exports, excluding Angola and Ecuador, are expected to increase by 30,000 bpd to 23.41 million bpd in the four weeks ending June 12th.

The EIA reported that US oil demand in March was revised down by 39,000 bpd from its previous estimate but still up 398,000 bpd from a year earlier. US oil demand in March was revised to 19.07 million bpd from its previous estimate of 19.109 million bpd. It reported that gasoline demand was revised down by 2.51% to 8.787 million bpd while distillate demand was revised up 3.64% to 3.842 million bpd. The EIA reported that US crude oil imports in March fell 1.6% on the year to 9.292 million bpd. Crude imports from Canada increased by 123,000 bpd to 2.02 million bpd in March while imports from Saudi Arabia increased by 268,000 bpd to 1.149 million bpd and imports from Mexico increased by 90,000 bpd to 1.086 million bpd.

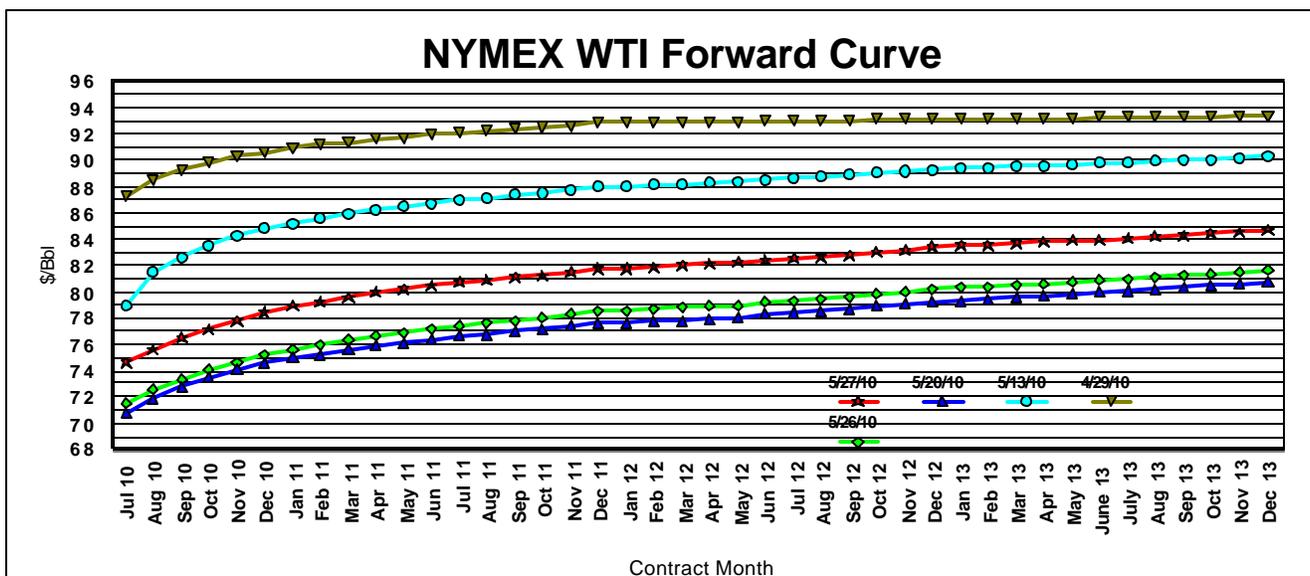
A Yemen government official said Yemeni tribesmen angry over the killing of a mediator in an airstrike which was supposed to target al Qaeda blew up an oil pipeline on Thursday, the second attack on the pipeline this week. An oil ministry official said oil exports had not been affected by the blast.

Refinery News

Wholesale gasoline increased by 7 cents to a 16.5 cent premium over July NYMEX RBOB on Thursday due to ongoing repairs to the main gasoline production unit at BP Plc's Los Angeles refinery.

Valero Energy Corp will shut a crude and vacuum unit at its 142,000 bpd Corpus Christi, Texas refinery for 30 hours of maintenance starting Thursday morning until Friday afternoon.

ExxonMobil Corp restarted a hydrotreater at its 150,000 bpd refinery in Torrance, California. The hydrotreater was shut as part of a multi-unit overhaul underway at the refinery. ExxonMobil reported a problem with emissions from a wet gas scrubber associated with a fluid catalytic cracking unit at its



562,500 bpd refinery in Baytown, Texas.

Chevron Corp reported a pump failure late Wednesday at its 260,000 bpd El Segundo, California refinery.

A small blast hit Sinclair Oil Corp's 24,500 bpd refinery in Casper, Wyoming earlier this week due to a crude distillation unit furnace problem. It will temporarily reduce refinery output by about 30% until the damaged unit is repaired. The loss will be offset by increased production of fuel at the company's 80,000 bpd refinery in Sinclair, Wyoming.

A fluid catalytic cracking unit at PDVSA's 60,000 bpd El Palito refinery was ready to restart operations on Thursday. The unit has been offline for several months for an expansion project that started last year. The unit is expected to begin producing gasoline blending components later on Thursday.

A fire that started on Thursday at Russia's Omsk refinery has been extinguished. Earlier an official said the fire hit one of the crude distillation units' heaters at the refinery.

Bahrain will shut a 69,000 bpd crude unit at its 267,000 bpd Sitra refinery for maintenance in February 2011. Bahrain Petroleum Co will also shut a 70,000 bpd vacuum distillation unit and a 50,000 bpd low sulfur diesel complex.

Gasoline inventories held in independent storage at the Amsterdam-Rotterdam-Antwerp area in the week ending May 27th increased by 3.46% on the week and by 48.8% on the year to 866,000 tons while gas oil stocks increased by 1.16% on the week but fell by 6.04% on the year to 2.537 million tons and fuel oil stocks increased by 4.67% on the week and by 86.49% on the year to 897,000 tons. Naphtha stocks fell by 48.45% on the week and by 47.92% on the year to 50,000 tons while jet fuel stocks fell by 2.97% on the week but increased by 8.06% on the year to 751,000 tons.

PetroChina said China will face a persistent surplus of refined oil product supplies despite increasing demand due to the rapid addition of refining capacity. It said by 2015, fuel surplus could amount to 80 million tons a year. Gasoline demand is expected to grow 6.3% per year to 130 million tons or 1.1 billion barrels by 2020. China's apparent oil demand in April increased 12% on the year. Demand for gasoline in April fell by 0.5% on the year to 1.53 million bpd. China's apparent oil demand is expected to grow more than 5% to 427 million tons this year or 8.54 million bpd. The country's crude refining capacity is expected to increase to 515 million tons or 10.3 million bpd by year end.

China's CNPC said China will increase its refined fuel storage space by nearly 50% to 490 million barrels by 2015 from its 2009 level of 53 million cubic meters. China has separately started stockpiling strategic reserves for crude oil under a three phase plan, with the first phase of 100 million barrels fully filled and the second phase tanks under construction.

Singapore's International Enterprise reported that the country's residual fuel stocks fell by 1.926 million barrels to 22.226 million barrels in the week ending May 26th. It also reported that Singapore's light distillate stocks fell by 1.226 million barrels to 9.471 million barrels while middle distillate stocks fell by 891,000 barrels to 11.497 million barrels on the week.

Japan's Finance Ministry reported that the country's crude imports in April increased by 4.3% on the year to 19.74 million kiloliters or 4.14 million bpd. Japan imported 5.522 million tons of liquefied natural gas last month, up 3.7% on the year.

Production News

Alaska North Slope oil producers have cut their flow of crude to 8% of normal levels as the Trans Alaska Pipeline remained closed for the third consecutive day. There is still no estimate of when the pipeline will resume operations after it was closed on Tuesday following an unexpected power outage that triggered a spill from an overflowed storage tank at the pump station. The shutdown has not disrupted tanker traffic in Valdez.

Kuwait has notified at least two Asian term buyers that it will cut crude supplies in July-September by 5% below contracted volumes. It notified another buyer it will supply full term supplies for the third quarter.

The Abu Dhabi National Oil Co said it will reduce its July Murban crude oil term supply to Asian customers by 3%. It will also ship 5% less than the contracted volume of its Lower Zakum grade and reduce shipments of its Umm Shaif and Upper Zakum grades by 5% and 10%, respectively.

PetroChina is delaying the development of the Jidong Nanpu oilfield after exploration found the reserve had been overstated. The chances of finding another major oilfield similar to China's Daqing field are slim, meaning China has to maintain heavy investment recovering new reserves at existing fields to offset those being pumped out. It also means China will continue to rely on growing imports of crude oil to meet its demand.

Iraq's Oil Minister Hussain al-Shahristani said Iraq is considering a third oil auction for some of its fields, such as Kirkuk and East Baghdad, if there is enough interest from foreign oil companies. Iraq signed a series of deals with international oil companies after two bidding rounds last year to develop some of its largest oilfields in a bid to increase the country's crude output capacity to about 12 million bpd from its current level of 2.5 million bpd.

Brazil's OGX Petroleo e Gas Participacoes SA said two wells in the Campos Basin's BM-C-41 and BM-C-42 block showed signs of oil.

OPEC's news agency reported that OPEC's basket of crudes increased by \$1.37/barrel to \$68.21/barrel on Wednesday from \$66.84/barrel on Tuesday.

Market Commentary

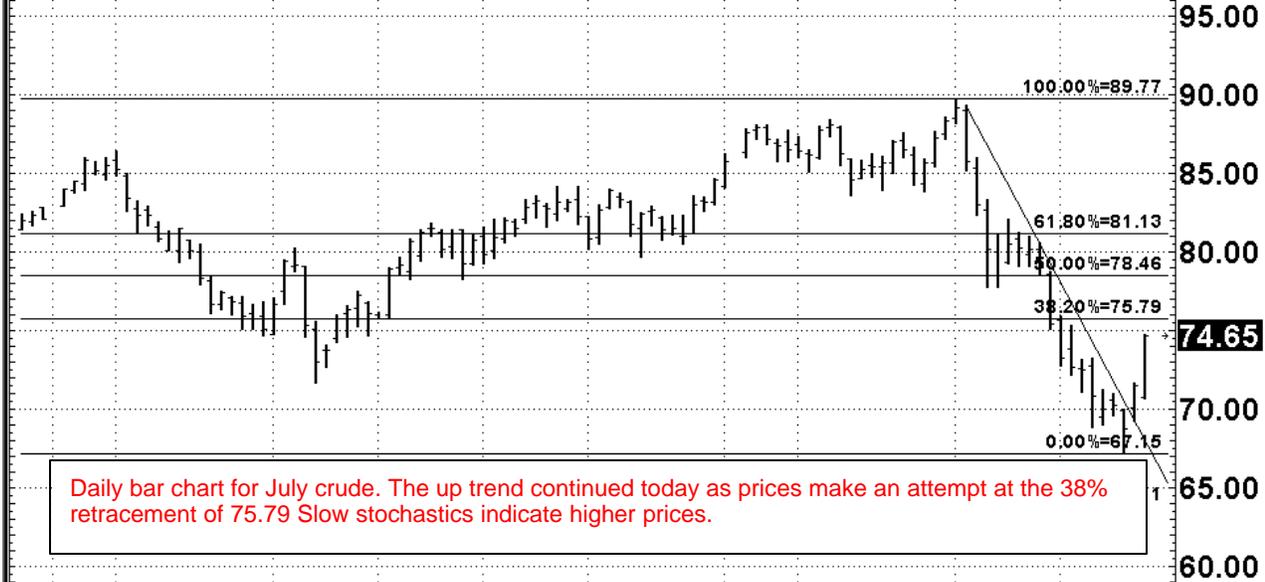
Crude oil rose for the second straight day along with the euro, which found strength from statements out of China that it would continue to invest in Europe. The euro also extended its gains after Kuwait said it was not reducing its euro exposure. This market is responding to positive economic news and ignoring the bearish fundamentals as it technically corrects itself. The July/August spread weakened slightly, settling at -\$1.09. This spread has traded back up to the neckline on an inverse head and shoulders pattern. A settlement above this neckline indicates that this spread should continue to strengthen. Crude oil should continue to experience a technical correction, with a test at the \$75.79 resistance level. Products continue to remain weak in comparison to the crude oil, with the 3-2-1 spread trading into \$10.55. The demand factor for products continues to weigh on this spread. Should this spread penetrate the \$10.39 level, we should see a test at \$9.85-\$9.80.

Crude oil July 10 391,418 +2,516 Aug 10 121,912 +6,607 Sept 10 99,365 +735 Totals 1,361,260
+15,067 Heating oil June10 15,102 -5,463 July 10 77,927 Aug 10 40,933 +2,751 Totals 305,109
+2,151 Gasoline June10 15,954 -8,251 July 10 86,719 +3,142 Aug 10 38,405 +754 Totals 249,764 -
3,747

Crude Support	Crude Resistance
67.15, 65.55, 64.20, 63.38, 62.70, 61.61, 60.95	75.79, 76.71, 78.81, 79.15, 79.75, 80.07, 81.65
Heat Support	Heat resistance
1.9610, 1.9200, 1.8570, 1.8280, 1.7670, 1.7565	2.1760, 2.1920, 2.3575, 2.4200, 2.4940
Gasoline support	Gasoline resistance
1.9465, 1.8880, 1.8650, 1.6010	2.0975, 2.1700, 2.2345, 2.3240, 2.4270, 2.4850, 2.5040, 2.5115, 2.7080



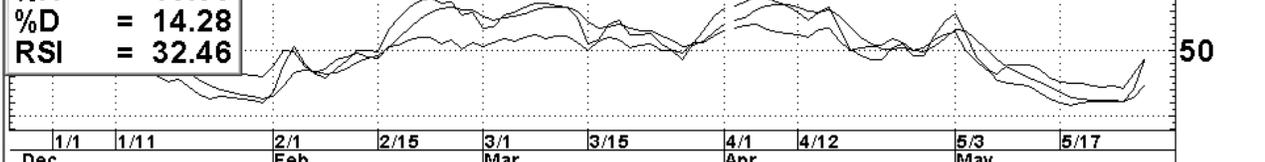
NYMEX ACCESS Light Crude Oil (QCLN10)



Daily bar chart for July crude. The up trend continued today as prices make an attempt at the 38% retracement of 75.79 Slow stochastics indicate higher prices.

%K = 19.99
 %D = 14.28
 RSI = 32.46

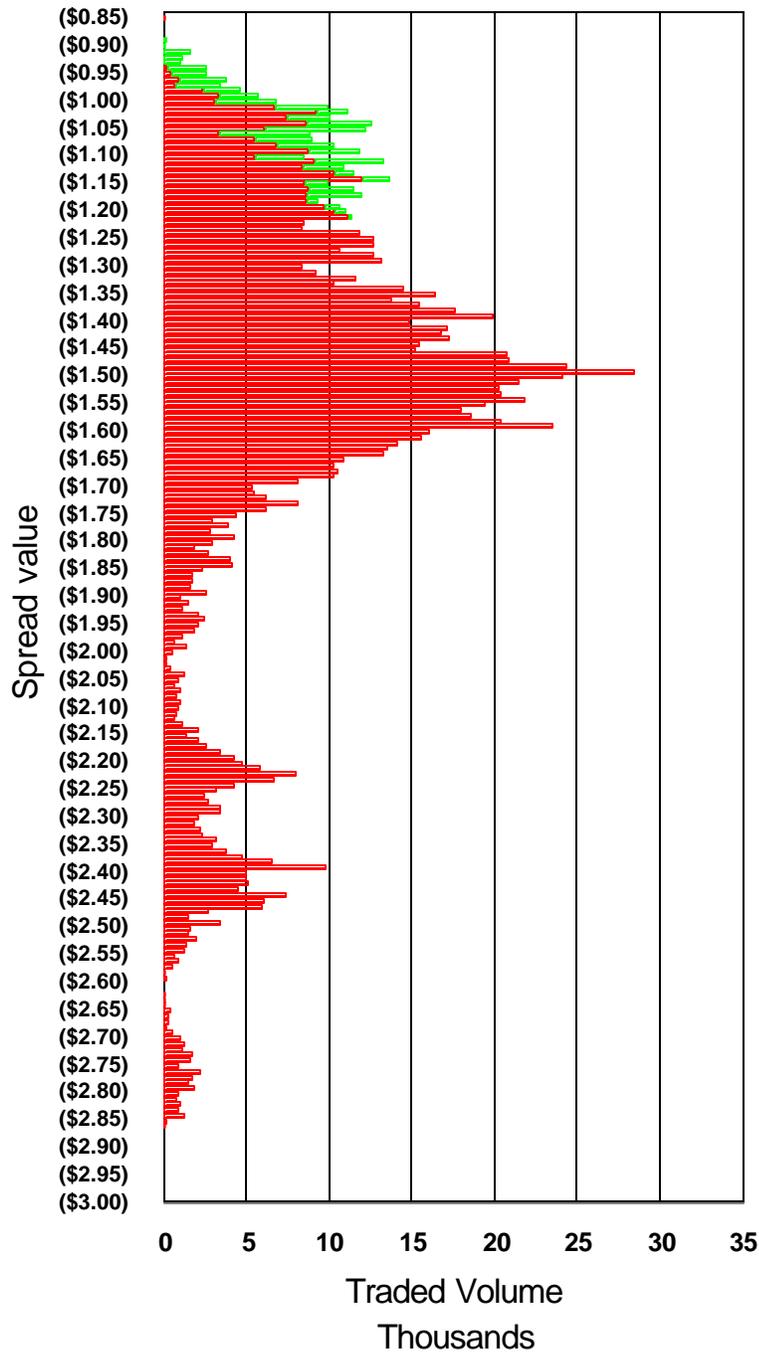
Slow Stochastic



NYMEX Jly - Aug WTI Spread

Traded Volume Skew
April 21 - May 27, 2010

■ April 21- May 26th ■ May 27th



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