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Windham Group



ENERGY RISK MANAGEMENT

Howard Rennell, Pat Shigueta,
& Karen Palladino
(212) 624-1132 (888) 885-6100

www.e-windham.com

ENERGY MARKET REPORT FOR MAY 28, 2010

Iran's Foreign Minister Manouchehr Mottaki said Iran expects a positive response from the UN's IAEA and world powers to its proposed nuclear fuel swap deal with Turkey and Brazil. He also insisted that any further sanctions by the UN Security Council against Iran over its nuclear program would prove counterproductive. He said Iran was still awaiting the response of both the IAEA and the US, France and Russia to its proposal and refused to speculate how his country may respond if the proposal was rejected.

Market Watch

The Commerce Department reported that US consumers saved more of their income in April, leaving spending flat last month even as prices remained low. Consumer spending was unchanged in April after rising by 0.6% in March. Incomes increased by 0.4%, mainly due to a gradual turnaround in the jobs market and low inflation.

Fitch Ratings downgraded Spain's credit rating, saying the country's economic recovery will be more muted than government forecasts due to austerity measures.

BP Plc said it may continue its "top kill" operation for two more days but complete success is not guaranteed. BP's chief executive said it is trying two methods to cap the leaking oil well, pumping drilling fluid and debris into the leak but the results will not be clear for another 48 hours. Separately, US incident commander Admiral Thad Allen said the flow of oil and gas from the well in the Gulf of Mexico has been halted by pumping mud into it, however the challenge will be whether that can be sustained.

Refinery News

Valero Energy Corp restarted a crude unit and vacuum unit at its 142,000 bpd Corpus Christi, Texas refinery. The units were shut for work at the east plant on Thursday. Separately, Valero reported that production was not impacted by a release of butane reported late Thursday at its 170,000 bpd McKee, Texas refinery.

**May
Calendar Averages**
CL – \$74.12
HO – \$2.0478
RB – \$2.1061

Nippon Oil Corp plans to process 4.12 million kiloliters or about 864,000 bpd of crude in June. Separately, Nippon Oil said it plans to shut the 145,000 bpd crude distillation unit at its Sendai refinery from June 12th to around July 10th for scheduled maintenance.

Russia's Energy Ministry reported that Russia's oil refining runs in April fell by 3.1% on the month to 4.76 million bpd. Russia's gasoline production in

April fell by 7.7% on the month to 91,200 tons/day while its gas oil production fell by 6.4% to 182,200 tons/day and fuel oil production fell by 9.5% on the month to 177,900 tons/day.

Russian and transit seaborne oil exports in June are expected to fall by 6.1% on the month to 2.94 million bpd due to lower loadings from Black Sea ports. Oil exports via the port of Novorossiisk are expected to fall to 807,000 bpd, down 5.1% from May. Crude supplies from Russia's Baltic Sea port of Primorsk are expected to remain flat at 1.52 million bpd while exports via Poland's port of Gdansk are expected to fall by 9.5% to 171,000 bpd. Russia's ESPO Blend crude supplies are expected to total 1.35 million tons, up 3.3% on the month.

Iran plans to increase daily gasoline production capacity by 26.5 million liters by March 2012, as part of its efforts to cut its dependence on imported fuel. An Iranian Oil Ministry adviser said capacity would increase by 20 million liters with the completion of refineries in the cities of Bandar Abbas, Tabriz and Isfahan. Refinery operations in Tehran and Abadan would become operational by the end of the 2010-11 year, increasing capacity by a further 6.5 million liters.

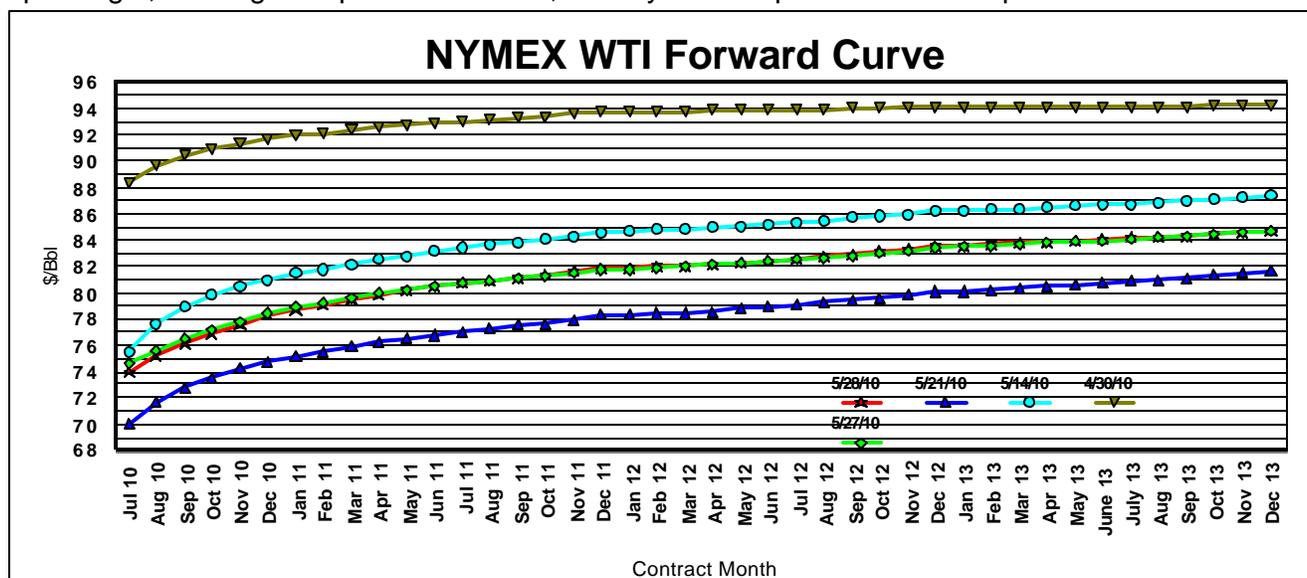
Indian Oil Corp expects its crude oil imports to increase 4.4% to 50 million tons in the current financial year because of higher refining capacity. It imported 47.9 million tons of crude in the last fiscal year ending March 31st. The refiner, which has imported about 400,000 tons of diesel so far in the current quarter, expects to halt diesel imports in August as its refineries that were shut for maintenance resume operations.

Production News

The Trans-Alaska Pipeline remained shut for a fourth day on Friday as crews work to clean up an oil spill. The pipeline is expected to restart later on Friday. The pipeline has been shut since Tuesday when a power outage at a pumping station caused a pipeline valve to open. Alyeska Pipeline Service Co ordered North Slope oil producers to cut the amount of oil they send to the pipeline by 8% of normal or 53,600 bpd from an average of 670,000 bpd.

Baker Hughes reported that the number of rigs searching for oil and natural gas in the US this week increased by 17 to 1,535. The number of rigs searching for oil increased by 17 to 555 while the number of rigs searching for natural gas fell by 2 to 967.

According to a Reuters survey, OPEC-11 output, excluding Iraq, averaged 26.9 million bpd in May, up from 26.88 million bpd in April. Supply from the OPEC-11 is 2.06 million bpd over the 24.84 million bpd target, leaving compliance at 51%, steady from April. Reuters reported that total OPEC



production, including Iraq, increased by 130,000 bpd to 29.29 million bpd. Iraq's oil production increased by 110,000 bpd to 2.39 million bpd. Saudi Arabia's oil production increased by 30,000 bpd to 8.28 million bpd.

ExxonMobil Corp suspended drilling operations at the Hoover Diana well in the Gulf of Mexico after the US government ordered a halt to current drilling in the area. It said the Hoover Diana well was a development well and the second of the company's wells affected by the drilling ban. Separately, Marathon Oil Corp said the company is in the process of abandoning the Innsbruck well in the Gulf of Mexico deepwater.

Iraq's Kurdistan's Energy Minister Ashti Hawrami said it could raise its oil production by 100,000 bpd to 200,000 bpd by the end of 2010 and hopes to resume crude exports. It halted its exports of about 60,000 bpd in October last year due to a payment dispute with Baghdad.

Ecuador's Central Bank reported that the country's average oil production fell by 4% to 14.85 million barrels in March from 15.41 million barrels last year. Ecuador's average oil production was 479,000 bpd in March. Petroecuador's oil production averaged 8.79 million bpd in March.

OPEC's news agency reported that OPEC's basket of crudes increased by \$2.27 to \$70.48/barrel on Thursday from \$68.21/barrel on Wednesday.

Market Commentary

An early session failed attempt to take out \$75.79, the 38% retracement between \$89.77 and \$67.15, brought about a wave of selling which was accentuated by news that Fitch Ratings removed Spain's AAA credit rating. Upon this news the euro weakened taking crude oil with it. Volatile trading has caused some traders to trade with caution, as this market remains economically sensitive. The June product expiration added to today's volatility. A prediction of an active hurricane season is on the back of everyone's mind as supply disruptions could lead to draws on inventories. So far, forecasts are calling for 14 to 23 named storms, with the possibility of up to 14 hurricanes forming. Coming into next week, we would look for another test at the \$75.79 area, selling failed attempts to trade above this level and buying successful ones.

The Commitment of Traders report showed that non-commercials in the crude market cut their net long position by 26,918 contracts to 40,443 contracts in the week ending May 25th. The combined futures and options report showed that funds cut their net long position by 25,321 contracts to 109,532 contracts on the week. The disaggregated futures and options report showed that producers/merchants increased their net short position by 8,170 contracts to 206,767 contracts while swap dealers increased their net long position by 40,237 contracts to 80,787 contracts on the week. Managed money funds cut their net long position by 15,099 contracts to 74,236 contracts while other reportable cut their net long position by 10,222 to 35,297 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 4,798 contracts to 13,197 contracts while non-commercials in the RBOB market cut their net long position by 18,527 contracts to 29,818 contracts on the week.

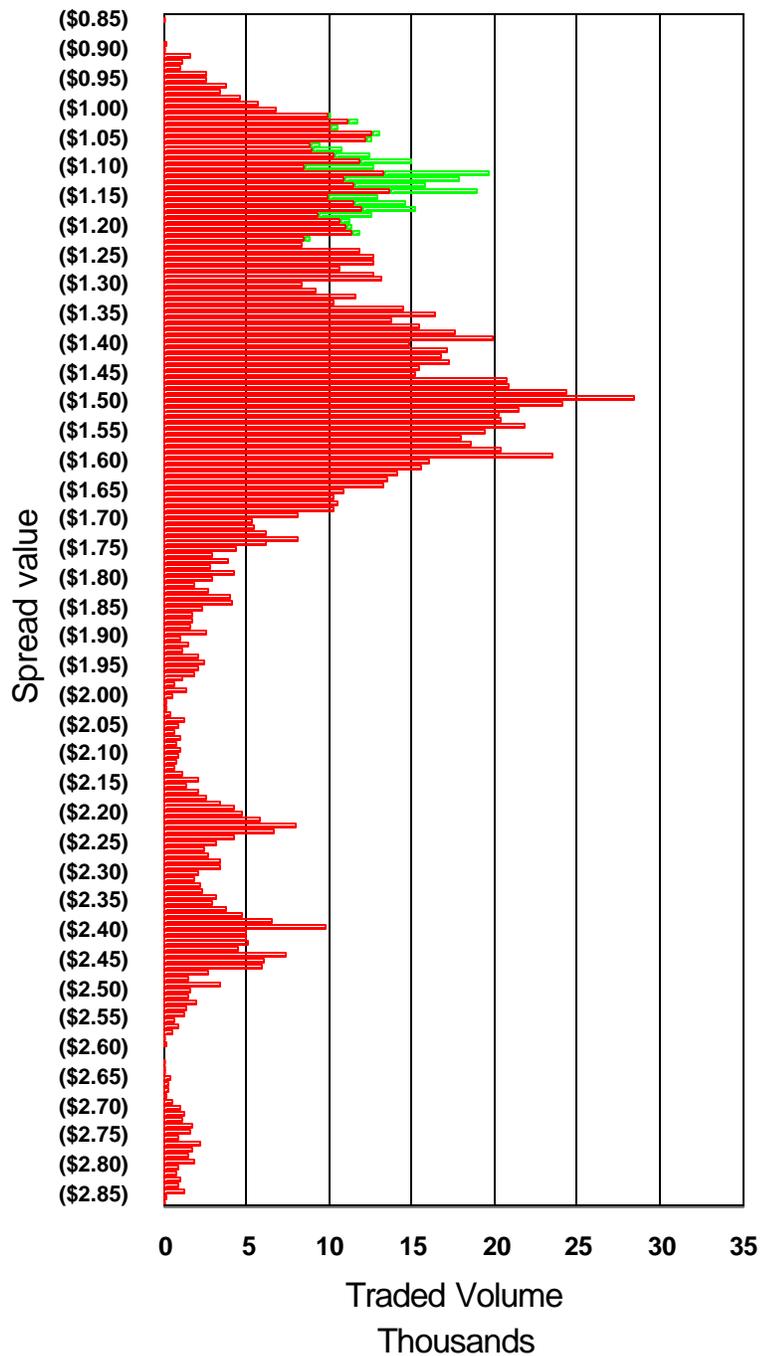
Crude oil July 10 381,461 -9,957 Aug 10 127,796 +5,884 Sept 10 101,748 +2,383 Totals 1,361,036 -224 Heating oil July 10 80,013 +2,086 Aug 10 42,918 +1,985 Sept 10 30,046 +1,787 Totals 303,529 -1,580 Gasoline July 10 90,267 +3,548 Aug 10 40,304 +1,899 Totals 246,094 -3,670.

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 Jly - Aug WTI Spread

Traded Volume Skew
April 21 - May 28, 2010

■ April 21- May 27th ■ May 28th



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