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ENERGY MARKET REPORT FOR JUNE 1, 2010

UAE Oil Minister Mohammed al-Hamli said the market was adequately supplied and the oil price lows hit in May were a temporary correction.

According to a UN report, Iran produced at least 5.7 kilograms of highly enriched uranium, which it says it is producing for a research reactor.

A BP official said the chance of success of BP's latest effort to stop the flow of oil from a well in the Gulf of Mexico is greater than its failed top kill attempt and carry a lower risk. It said it hopes to place a cap on a fractured oil pipeline to contain the Gulf of Mexico spill within the next 24 hours. The operation dubbed a lower marine riser pipe to cut off the leaking pipe and seal it with a tight cap was launched Tuesday morning. Meanwhile, the US

Market Watch

Morgan Stanley has shipped its supertanker Ashna loaded with North Sea Forties crude to the US. The VLCC left Rotterdam on Friday and is expected to arrive in the US refining hub of Galveston, Texas on June 13th.

The Commerce Department reported that construction spending in April increased by 2.7%, the largest gain since August 2000 from a gain of 0.4% in March. Investment in private construction increased by 2.9%, the largest increase since July 2004 after falling 0.5% in March.

The Institute for Supply Management said the US manufacturing sector expanded for a tenth consecutive month but at a slower pace than in April, which was the highest in almost six years. Its index of national factory activity fell to 59.7 from 60.4 in April but was above market expectations of 59. The report's employment component increased to 59.8, the highest since May 2004, while new orders held steady at 65.7.

A Reuters survey predicted nonfarm payrolls in May increased by 513,000, the largest monthly gain since 1983, after a 290,000 rise in April.

China's factories scaled back production in May and slowed the pace of hiring, according to the purchasing managers' index. The China Federation of Logistics and Purchasing reported that China's PMI fell to 53.9 in May from 55.7 in April.

Manufacturing activity in the euro zone expanded in May at a slower pace than April's 46 month high.

The European Central Bank warned euro zone banks faced up to 195 billion euros in a second wave of potential loan losses over the next 18 months due to the financial crisis.

The Financial Times reported that the second largest public pension fund in the US, the California State Teachers Retirement System, is ready for its first investment in commodities to hedge against inflation. It is set to vote on Thursday on a long term strategic allocation to commodities, adding oil, sugar and cooper to its \$138.5 billion portfolio of equities, bonds, real estate and private equity.

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

**June
Calendar Averages**
CL – \$72.58
HO – \$1.9704
RB – \$1.9825

government has launched a criminal investigation into BP Plc's oil spill in the Gulf of Mexico. US Attorney General Eric Holder said federal agencies, including the FBI, are participating in the probe.

The EIA reported that the US average retail price of diesel fell by 4.1 cents/gallon to \$2.98/gallon in the week ending May 31st. Diesel prices have fallen 4.7% or 14.7 cents/gallon in the past three weeks. The price is up 62.8 cents or 26.7% above a year ago. The EIA also reported that the US retail price of gasoline fell by 5.8 cents to \$2.728/gallon on the week.

Refinery News

Credit Suisse reported that US refinery margins were lower in most regions last week, with the exception of the West Coast. It reported that margins in the West Coast increased by 3.6% or 62 cents to \$17.72/barrel. Margins in the Rockies region fell the most, falling \$5.02/barrel to \$23.82/barrel while Midwestern margins fell by \$2.48/barrel to \$11.05/barrel and margins in the Gulf Coast fell by \$1.77/barrel to \$10.82/barrel. Margins in the Northeast fell by 10 cents to \$7.12/barrel.

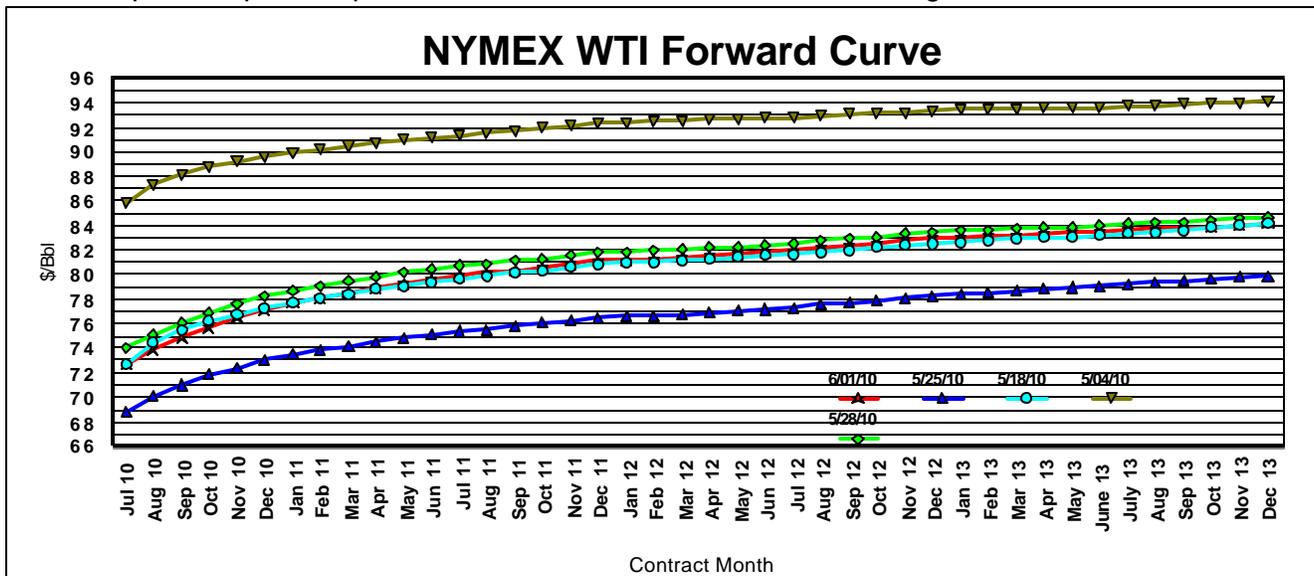
ExxonMobil Corp reported that it extinguished a fire on Monday at its 149,000 bpd Torrance, California refinery. It said the fire did not impact its production. Separately, it restarted a hydrogen unit at the refinery over the weekend after it was shut in early March for an overhaul.

BP Plc reported unplanned flaring over the weekend at its 265,000 bpd Carson, California refinery following a problem.

Chevron Corp restarted a fluid catalytic cracking unit at its 245,271 bpd in Richmond, California on Monday.

Valero Energy Corp announced it closed a deal to sell its 211,100 bpd Delaware City, Delaware refinery and its pipeline assets to PBF Energy Company LLC. Valero has shut the refinery due to economic reasons however PBF agreed to purchase it with a plan that would return the plant to profitability. Meanwhile, Valero said buyers are still interested in purchasing its Aruba refinery now that a tax dispute between the company and government has been resolved. Separately, Valero said a leak at its 287,000 bpd Port Arthur, Texas refinery had no material impact to its production.

Hess Corp said that a fuel truck that overturned early Tuesday outside of its Port Reading, NJ refinery will not impact the plant's operations. The truck turned over after leaving a fuel terminal.



Kuwait's 270,000 bpd Mina Abdullah refinery will shutdown for a few days after a fire there injured two workers. It will not interrupt shipments to buyers and it has not invoked force majeure clauses on its contracts. The refinery is expected to resume operations in a few days. The fire that started in a pipeline was extinguished.

Indian refiners processed 3.21 million bpd of crude in April, up 5.3% on the year. Crude oil production during the month increased by 5.2% to 701,500 bpd while natural gas production increased by 54.2% to 4.52 billion cubic meters from a year ago.

South Korea's total crude processing volume in June is expected to increase by 4% to 2.28 million bpd from May before maintenance shutdowns start from late June to July.

China's Sinopec recently started work on an expansion project at Shijiazhuang Refining & Chemical Co that will raise its unit's refining capacity by 60%. The refinery will have an annual crude oil processing capacity of 8 million metric tons or 160,700 bpd following the completion of the expansion project.

Sinopec Corp's trading unit Unipec started buying gasoline from independent traders leasing oil storage in the UAE and reselling the fuel into Iran. Unipec sourced about 600,000 barrels of gasoline at Jebel Ali in Dubai for loading at the end of May and early June.

Iran's Deputy Oil Minister Shahnazi Zadeh said upgrading work to expand its gasoline production capacity at the Bandar Abbas refinery will be completed in 2011.

Exports of light diesel fuel from China for April increased to 562,000 tons, well above last year's average volumes of 350,000-400,000 tons.

Libya bought up to seven cargoes of 30,000-35,000 metric tons of Mediterranean gasoline last week in its latest tender.

Brazil's Foreign Trade Ministry reported that Brazil's ethanol exports fell to 93.5 million liters in May from 309 million liters last year. Brazil's ethanol export volume was 34.9 million liters in April.

Six private Chinese oil companies out of eight short listed in bidding have obtained approval from the central government to participate in the country's strategic petroleum reserve program previously restricted to state-owned enterprises. The companies all have a crude oil storage capacity of at least 130,000 metric tons each.

Production News

According to a Dow Jones Newswires survey, OPEC's total oil production increased by 0.19% or 55,000 bpd on the month to 29.34 million bpd in May amid an increase in Iraq's oil production. Oil production from OPEC's 11 quota bound members that exclude Iraq, fell for the first time this year, falling 0.32% or 85,000 bpd to 26.92 million barrels, largely due to lower output in Nigeria. OPEC 11 still pumped about 2.08 million bpd above its output target of 24.845 million bpd. It reported that Iraq's oil production increased by 140,000 bpd to 2.42 million bpd in May. Nigeria's oil production fell by 70,000 bpd to 2.05 million bpd while Saudi Arabia's oil production also fell by 25,000 bpd to 8.26 million bpd.

BP Plc reported that crude oil production at the 200,000 bpd Buzzard oil field in the North Sea increased sharply last week partly due to the end of planned maintenance. Crude oil from the

Buzzard field accounted for 29% of total production of Forties crude in the week ending May 30th, close to the normal level of 31-33%.

Norway's Statoil ASA said it had taken a first step toward normalizing the situation at its Gullfaks C platform in the North Sea, which was partially evacuated last month due to a sudden change in pressure in a well. Separately, Statoil said it was preparing to stop drilling at two deepwater Gulf of Mexico prospects to comply with a temporary stoppage ordered by the US government. It will stop drilling at its Krakatoa prospect in the Mississippi Canyon and at its Tucker prospect in the Walker Ridge area in the Gulf.

Kuwait Petroleum Corp has notified at least three Asian refiners of a 5% cut in term crude supply volumes for the third quarter after supplying them full volumes in the second quarter.

Kuwait's oil production from the shared Neutral Zone it shares with Saudi Arabia reached 260,000 bpd in May.

Nigeria's crude oil exports are expected to increase well above 2 million bpd in July, as delayed cargoes from the previous two months increased volumes. Preliminary loading programs showed Nigeria's crude oil exports would average 2.18 million bpd in July, up from 1.95 million bpd in June and 2.13 million bpd in May.

Iraq's State Oil Marketing Organization said the country exported 1.9 million bpd of crude oil in May, up 8% from the 1.76 million bpd exported in April. Iraq exported an average of 1.46 million bpd from its southern terminals, 430,000 bpd from its northern Kirkuk oil fields via the port of Ceyhan and 10,000 bpd to Jordan via trucks.

Russia's Finance Minister Alexei Kudrin said he wants to change the current rule that provides for zero export duties for oil from certain east Siberian fields, effective July 1st. The government is still discussing the oil price on which to base the budget.

OPEC's news agency reported that OPEC's basket of crudes increased by \$1.26 to \$71.88/barrel on Friday from \$70.62/barrel on Friday.

China's National Development and Reform Commission said China cut domestic prices of jet fuel by 3.9% to CNY5,470/metric ton effective Tuesday.

Market Commentary

Crude oil fell 1.8 percent as the euro slipped to a four year low against the dollar, raising concerns that the euro debt crisis is spreading. News out of China that factory production slowed last month added to economic worries. Concern is growing that China will move to tighten monetary policy, which will have an impact on demand in that region. The July/August crude oil spread despite breaking above the neckline on the inverse head and shoulders pattern we wrote about last week, has been unable to settle above this trendline. At this point in time, this spread should continue to come under pressure both from a technical and fundamental view. With a settlement below the -\$1.30 level, we would look for a test at -\$1.90. Trade was choppy as the July crude oil reacted to positive news that U.S. manufacturing improved along with housing construction. As stocks began to fall so did the price of crude oil. The inability of the July contract to maintain strength above the \$75.00 level is a sign that prices are stuck in a range between \$75.79 and \$65.00. Once again prices fell shy of the \$75.79 target. We would continue to buy and sell crude oil at the listed support and resistance numbers until prices breakout of the \$75.79-\$65.00 range.

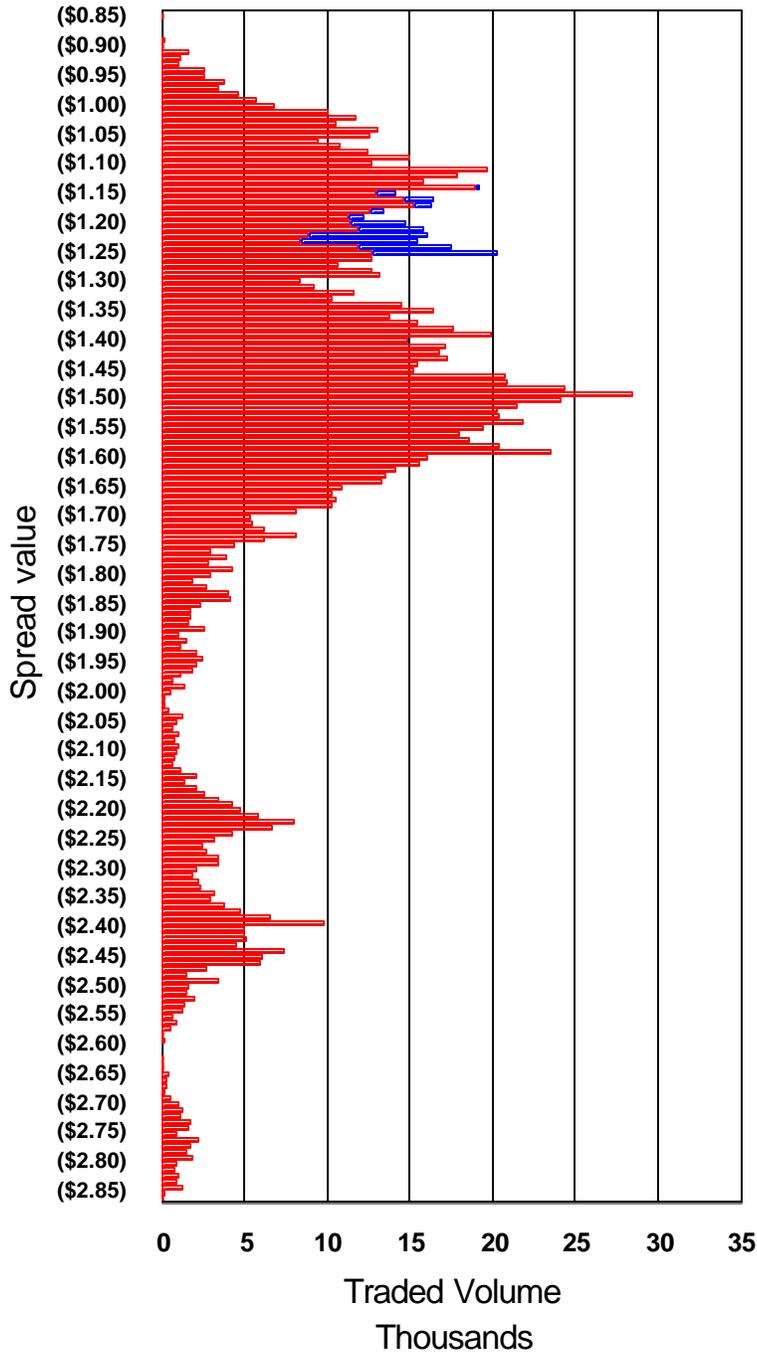
Crude oil July 10 374,848 -6,613 Aug 10 129,812 +2,016 Sept 10 103,561 +1,813 Totals 1,361,943 +907
 Heating oil July 10 76,242 -3,771 Aug 10 43,304 +386 Sept 10 30,584 Totals 295,530 -7,999
 Gasoline July 10 91,273 +1,006 Aug 10 42,070 +1,766 Totals 244,653 -1,441.

Crude Support	Crude Resistance
67.15, 65.55, 64.20, 63.38, 62.70, 61.61, 60.95,	73.55, 74.25, 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, 270.80

NYMEX Jly - Aug WTI Spread

Traded Volume Skew
April 21 - June 1, 2010

■ April 21 - May 28th ■ June 1st



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