



## ***ENERGY RISK MANAGEMENT***

Howard Rennell, Pat Shigueta,  
& Karen Palladino

**(212) 624-1132 (888) 885-6100**

**www.e-windham.com**

---

### **ENERGY MARKET REPORT FOR JUNE 2, 2009**

---

OPEC's director of research, Hasan Qabazard said oil prices can fall again because fundamentals are still weak. He said prices are being affected more by non-fundamentals rather than by fundamentals. He said the oil markets are still weak and the price rally may be unsustainable in the short term. Stocks in industrial countries are 200 million barrels above average while 130 million barrels are stored in floating storage. He said it will take about six months for global inventories to return to average levels. He reaffirmed the price needed to be around \$70-\$80/barrel to encourage the investment needed in projects across the energy sector to meet

#### **Market Watch**

The Colorado State University forecast team cut its 2009 Atlantic hurricane season forecast to 11 tropical storms, of which five will become hurricanes. It previously forecast 12 tropical storms, six of which will become hurricanes.

The National Association of Realtors said its Pending Home Sales Index increased to 90.3 in April from 84.6 in March. The 6.7% gain is the largest monthly gain in 7-1/2 years. It is 3.2% above last year's level, the latest sign the housing sector is stabilizing.

The Baltic Exchange's main sea freight index increased to a new eight month high on Tuesday due to China's imports of iron ore. The index increased 11.55% or 425 points to 4,106 points on Tuesday, reaching its highest level since September 25, 2008. The index has posted successive 2009 highs for 14 consecutive sessions. Cheaper imports of iron ore has caused an increase in demand, which as also led to congestion at China's ports, supporting freight rates further as the availability of Capesize vessels has tightened.

CME Group announced that volume in May averaged 10.7 million contracts/day, down 15% on the month but up 17% on the month. Total volume was 214 million contracts for May, of which 79% was traded electronically. Total NYMEX volume averaged 1.7 million contracts for May 2009, down 10% on the year but up 11% on the month. NYMEX energy futures and options volume averaged 932,000 contracts/day, down 21% on the year. NYMEX floor volume averaged 134,000 contracts/day, down 44% on the year while NYMEX electronic volume averaged 798,000 contracts/day, down 15% on the year. The average daily volume cleared through CME Clearport was 537,000 contracts for May 2009, up 29% on the year.

The CFTC's Chairman Gary Genslar told senators that broad US regulatory reform is necessary and called for regulation of over-the-counter derivatives. He endorsed aggregated position limits as a way to prevent excessive speculation. He said position limits should look across the markets domestically and overseas and include related instruments like swaps. He said President Barack Obama wants action by the end of the year to strengthen market integrity, lower risks and protect investors.

Brazil's Mines and Energy Minister Edison Lobao said the country's government will send a new regulatory legislation for Brazil's oil and natural gas industry to Congress by August. The new regulations will cover exploration and development of Brazil's subsalt reserves. Congress will be expected to pass the legislation in about six months. The minister also reiterated his desire to create a separate state-owned company to manage the subsalt oil assets now under control of the government.

**API Stocks**

**Crude** – down 828,000 barrels  
**Distillate** – up 3.446 million barrels  
**Gasoline** – up 99,000 barrels  
**Refinery runs** – down 0.9%, at 82.9%

future demand. He also said he believed that OPEC will stay the course with regard to its production ceiling given current economic conditions.

OPEC's Secretary General Abdullah al-Badri said oil prices can reach \$80-\$90/barrel by early next year but added that OPEC will not increase its output until a large oversupply is

depleted.

Libya's top oil official, Shokri Ghanem said Iraq is unlikely to return to OPEC's production target system for several years unless it resumes production of 4 million bpd or so. Iraq is currently producing between 2.3 million and 2.4 million bpd and is planning to increase its production to 6 million bpd in the next five years.

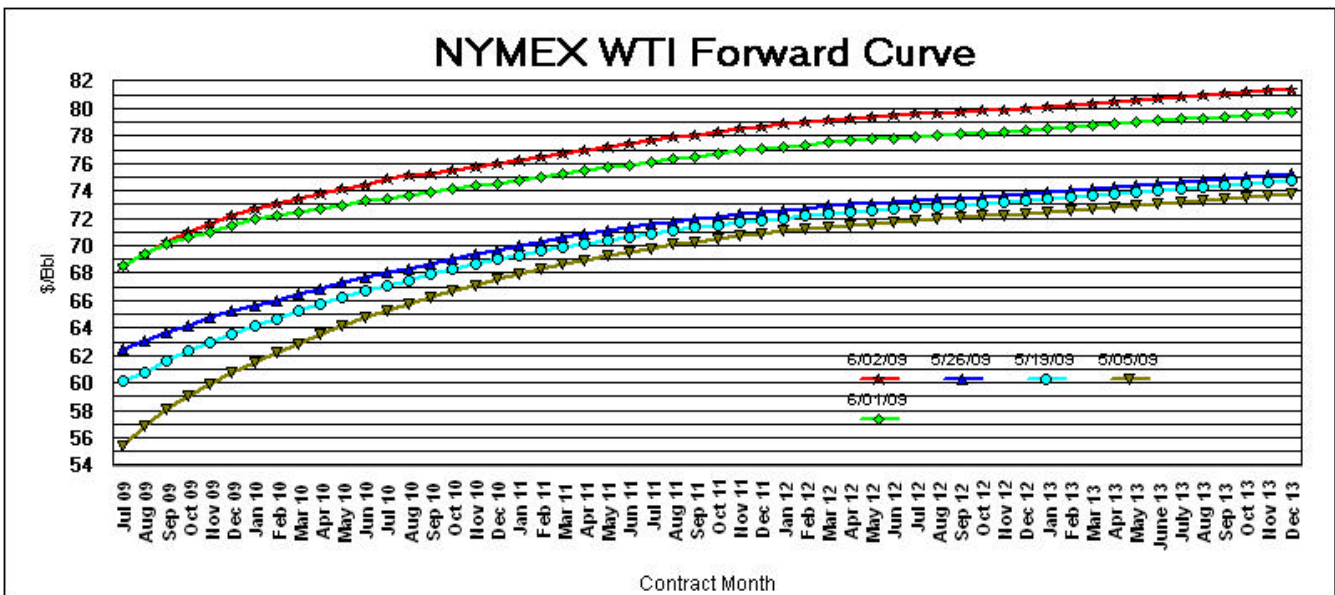
According to the US Interior Department, the US sold 5.8 million barrels of royalty in kind crude that was drilled on federal leases to ConocoPhillips, Shell Oil, Sempra Energy and Gary-Williams Energy Corp that will process the oil into gasoline and other petroleum products. The oil will be delivered to the companies during 6 or 12 month periods starting in July. The oil will be converted into 226 million gallons of gasoline, diesel, heating oil, jet fuel and heavy fuel oil.

**June Calendar Averages**

**CL** – \$68.57  
**HO** – \$1.7872  
**RB** – \$1.9248

Royal Dutch Shell's chief executive, Jeroen van der Veer said low energy investment can lead to a future spike in oil prices. Shell will continue to invest despite a fall in oil prices from its peak last summer. The company plans to invest \$31-\$32 billion projects this year compared with \$30 billion last year.

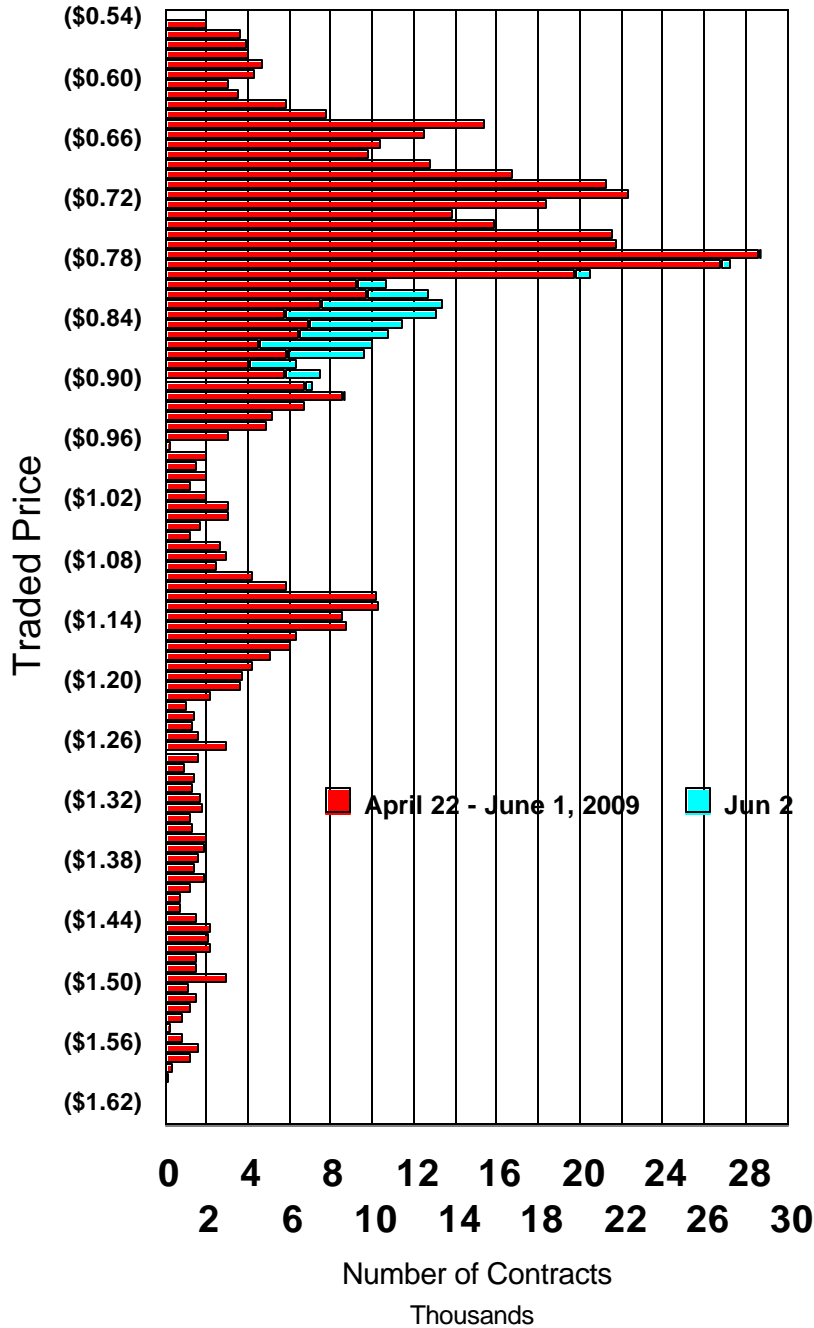
According to PIRA, the 435 million bpd Keystone Pipeline, which is scheduled to start in February 2010, delivering oil from Alberta into Wood River and Patoka will help Canadian producers spread their crude more efficiently in Padd II than currently possible. The pipeline has the potential to divert some Canadian crude away from the Spearhead Pipeline delivering into Cushing, Oklahoma. It will also relieve pressure from the Platte and Ozark systems. However there remains a lack of takeaway capacity from Cushing for surprises coming from unpredictable synthetic crude exports from Canada and unplanned refinery and pipeline upsets within Padd II. It stated that the frequency of deep prompt NYMEX contango will lessen amid some spare capacity on Ozark expected to open up in 2010.



**Refinery News**

**NYMEX WTI: July Aug Spread  
Price Vs Volume for April 22 - June 2, 2009**

Trade Weighted: 5/29 -0.79, 6/1 -0.78, 6/2 -.85



Regular gasoline for prompt, first cycle June delivery traded as much as 7.5 cents higher on the day to a 31 cent premium over the July NYMEX RBOB contract amid the ongoing maintenance on a fluid catalytic cracking unit at BP's Whiting, Indiana refinery.

Citgo said it shutdown a fluid catalytic cracking unit at the east plant of its 156,000 bpd Corpus Christi, Texas refinery due to technical problems with the spent catalyst slide valve. Separately Citgo restarted a fluid catalytic cracking unit at its 167,000 bpd Lemont, Illinois refinery on Tuesday after it was shut on Monday afternoon. Other units affected by the shutdown will restart throughout the day on Tuesday.

BP Plc will restart a depropanizer tower at its 475,000 bpd refinery in Texas City, Texas. The restart, which is expected to last through Thursday, will result in emissions from the ultracracker and ultraformer units. Separately, BP Plc completed the restart of a 61,000 bpd hydrocracker unit at its 225,000 bpd Cherry Point, Washington refinery and returned the unit to planned rates on Tuesday.

Murphy Oil Co is restarting its 35,000 bpd Superior, Wisconsin refinery after a power outage earlier Tuesday morning.

Sunoco Inc is attempting to restart a fluid catalytic cracking unit at its 178,000 bpd refinery in Marcus Hook, Pennsylvania after it was

shut due to a fire in an ethylene plant late last month.

Motiva Enterprises LLC's 220,000 bpd refinery in Norco, Louisiana resumed normal operating rates early Monday following the restart of a catalytic reformer unit on Sunday. The unplanned shutdown

last week of catalytic reformer 2 resulted in a slight reduction in operating rates at the associated fluid catalytic cracking unit.

SemGroup LP's White Cliffs pipeline started its commercial operation. It said current capacity of the pipeline is about 30,000 bpd and can be expanded to more than 50,000 bpd. The pipeline carries oil from near Platteville, Colorado to storage tanks owned and operated by it at Cushing, Oklahoma. The pipeline includes a 100,000 barrel tank at Platteville to aggregate DJ Basin/Wattenberg Field crude for shipment via the pipeline to markets downstream.

A senior Kuwait Oil Co official said he hoped Kuwait's new government will proceed with plans to build a fourth oil refinery at al-Zour. In March, Kuwait cancelled a tender to build the refinery but said the project will still proceed. The official said he hoped the project would be re-tendered under the new government.

Saudi Aramco and ConocoPhillips plan to start up their joint venture Saudi Yanbu refinery in late 2014, a year later than previously scheduled. Separately, Saudi Aramco expects to start operations at its expanded Ras Tanura refinery by 2015. It said it will build a 400,000 bpd Arab heavy crude oil refinery, expanding the existing Ras Tanura refinery complex to 1 million bpd.

China's crude oil stocks at the end of April increased to their highest level since 2008, while refined fuel stocks held by state refiners fell sharply. Total crude stocks in April increased by 1 million tons on the month to 38.6 million tons. Diesel stocks held by state refiners CNPC and Sinopec fell by 14% in April while gasoline stocks fell by 12%. China's apparent oil demand in April increased by 3.9% on the year, its first significant increase since October, as refiners increased sales to deplete stocks.

Weak fuel oil demand in China has reversed the usual trade flow, leading a trading house to re-export a cargo to Singapore.

India's Hindustan Petroleum Corp Ltd may export 1.5 million tons of refined products in the current fiscal year ending March 2010.

Indonesia's Pertamina said its diesel stocks fell to 20 days from about 30 days while its gasoline stocks stood at 19 days, raising the prospect of higher imports. Pertamina plans to import about 2.4 million barrels of diesel and 4-5 million barrels of gasoline in July, with the possibility of increasing imports further in September.

### **Production News**

Syncrude Canada reported an explosion at its Fort McMurray oil sands facility on Monday night. Operations were not affected as the investigation into the explosion gets underway.

Trade sources said Qatar notified at least four Asian term buyers that it will supply full contracted volumes of its Land crude for July, steady from the June levels. However sources at term buyers of Qatar Marine crude said they were still waiting for notifications of allocations for July supplies.

Saudi Aramco will begin production at its Khurais oil field development by the end of the month. The field has a capacity of 1.2 million bpd.

Saudi Aramco is expected to once more increase the differentials of its heavy crudes heading to Asia in its July official selling prices. If the forecasts are proved correct, it will be the sixth month out of seven so far this year that Saudi Aramco will increase the price of its Arab Medium and Heavy crudes.

Iraq's Oil Ministry reported that the country's oil exports in May increased to 1.905 million bpd on average, an increase of 80,000 bpd over the previous month.

Chevron Corp said it can use a technique to increase oilfield output across the neutral zone between Kuwait and Saudi Arabia in 2017. It said if successful, the technique can be used worldwide and add billions of barrels to global reserves. Chevron is testing the impact of steam flooding in the oilfields in the neutral zone to help increase output of heavy oil. Kuwait and Saudi Arabia share an estimated 550,000 bpd of production from the Neutral Zone.

Russia's Energy Ministry reported that the country's crude oil output in May totaled 9.84 million bpd, down slightly by 0.10% from 9.85 million bpd in April but up 1% on the year. Russia's exports via state crude oil pipeline monopoly Transneft increased to 4.4 million bpd in May from 4.37 million bpd in April. The country's seaborne crude oil exports supplied to ports by Transneft fell to 2.79 million bpd in May from 2.8 million bpd in April. Russia's gasoline exports increased by 49.2% on the month to 3.425 million barrels while gas oil exports increased by 13.3% to 19.723 million barrels and fuel oil exports increased by 3% to 28.162 million barrels.

The Caspian Pipeline Consortium said Kazakh and Russian oil exports via the CPC fell to 683,955 bpd in May, down 8.2% from 745,056 bpd in April.

Brazil's Petrobras notified the National Petroleum Agency late Monday that it discovered signs of oil and natural gas at an Espirito Santo Basin block.

OPEC's news agency reported that OPEC's basket of crudes increased sharply by \$2.64 to \$66.35/barrel on Monday from \$63.71/barrel on Friday. It also reported that OPEC's basket of crudes increased by \$2.92/barrel to \$60.70/barrel in the week ending May 29<sup>th</sup>.

### **Market Commentary**

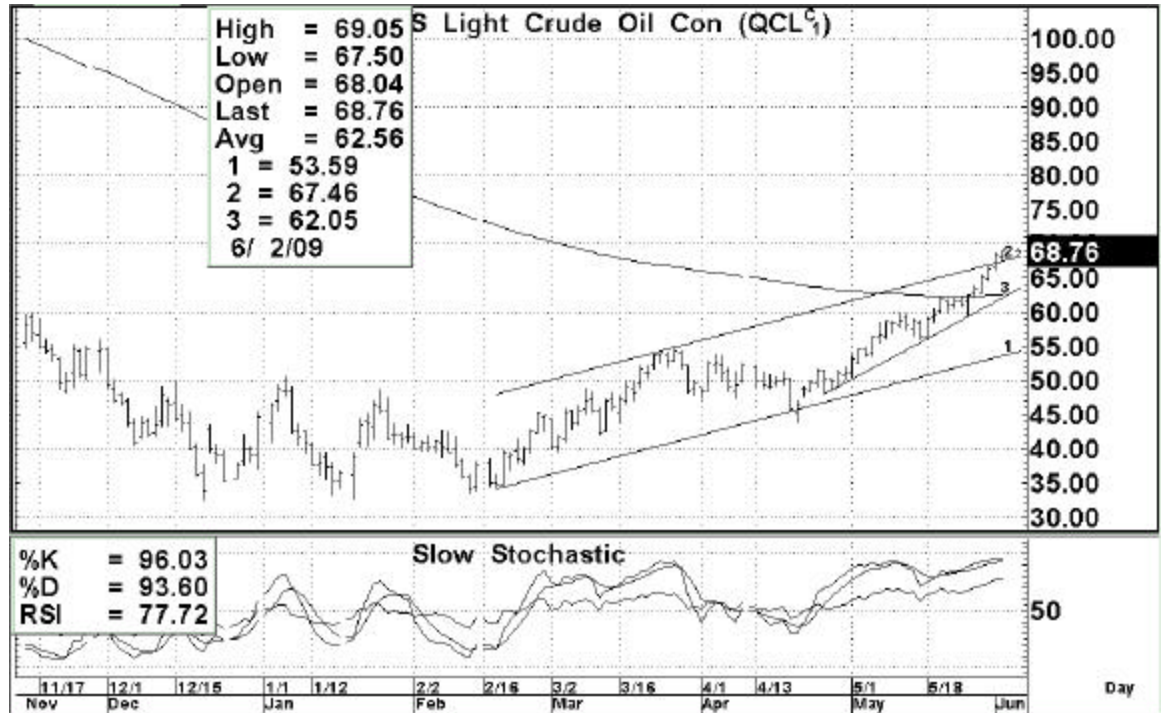
After posting its highest level since November, crude oil settled slightly lower on the day. With OPEC production up and crude stocks at unusually high levels, one would think that crude oil would be trading lower, but speculators are defying the true fundamentals of this market. Once again a strong equities market and a weak dollar brought about an appeal for commodities. Given that inventories are high, demand low and the economy struggling, a price correction seems inevitable. Based upon a spot continuation chart, technical indicators are still supportive of this market. With these two scenarios in place, we would look for minor corrections to the downside, where we would like to be buyers of this market. We would look to buy dips that fail to reenter the ascending channel seen on the chart below. Any successful penetrations would present selling opportunities. Heating oil once again experienced unseasonable strength based on thoughts of higher diesel demand as economies such as China show slight signs of recovery. Heating oil crack spreads strengthened, as did heating oil versus gasoline. We would expect heating oil to remain economically sensitive and for signs of economy growth to remain supportive for this product.

Crude Oil JUL.09 348,751 +1,412 AUG.09 120,440 +3,750 SEP.09 73,892 -279 OCT.09 39,927 -1,492 Totals: 1,168,166 +4,393 N.Y. Heating Oil (HO) JUL.09 68,350 -85 AUG.09 30,536 +2,720 SEP.09 22,972 +269 OCT.09 15,825 -160 Totals: 265,326 +2,065 NEW YORK HARBOR RBOB (RB) JUL.09 93,840 -874 AUG.09 37,519 -14 SEP.09 26,731 +276 OCT.09 15,278 -377 Totals: 209,474 -1,404

The crude market traded lower following the release of the API report which showed a smaller than expected draw in crude stocks of 828,000 barrels. It is the fifth consecutive draw in crude stocks. It reported the draw in crude stocks as crude runs increased by 37,000 bpd to 14.548 million bpd however imports built by 154,000 bpd on the week to 9.028 million bpd. Meanwhile the API reported a

larger than expected build in distillate stocks of 3.446 million barrels on the week, with a build of 2.284 million barrels in Padd 1 alone. It reported the build in stocks as production increased by 70,000 bpd or 1.7% on the week to 4.243 million bpd. Also, apparent distillate demand fell by 6.6% on the week to 3.96 million bpd while apparent demand basis its three week moving average fell by 4.9% to 4.111 million bpd. The API reported a build of 99,000 barrels in gasoline stocks as apparent demand fell by 7.3% to 9.149 million bpd and apparent demand basis its three week moving average fell by 2.1% to 9.73 million bpd.

Spot continuation chart for crude oil. Prices came down to test the upper trendline of this channel and bounced off of it. We would continue to us this upper line as a pivotal area. The trendline comes into tomorrow's session set at \$67.73. Slow stochastics are in over bought territory but are pointing higher. The RSI is still supportive of prices.



<b>Crude Support</b>	<b>Crude Resistance</b>
July 200 day MA 65.41, spot 200 day MA 62.50, 67.73, 60.50 , 59.85, 58.90, 56.75, 55.45, 54.49,	71.80, 74.50, 76.10
<b>Heat Support</b>	<b>Heat resistance</b>
1.2715, 1.2300, 1.1359, 1.1095, 1.0520	1.83000, 1.9090
<b>Gasoline support</b>	<b>Gasoline resistance</b>
1.5370, 1.5260, 1.3560, 1.3400, 1.3180, 1.2700, 1.2625 1.1680, 1.0128, .9590	2.0000, 2.0650, 2.1600

The information contained in this letter is taken from sources, which we believe to be reliable, but is not guaranteed by us as to accuracy or completeness and is sent to you for information purposes only. The Windham Group bases its market recommendations solely on the judgment of its personnel. Reproduction in whole or part or other use without written permission is prohibited.