



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JUNE 2, 2010

US President Barack Obama pledged to find support in the US Senate for a bill that overhauls energy policy. He said the US could only pursue offshore drilling as a short term solution to its energy needs. He said US dependence on fossil fuels threatened the country's national security while putting the economy and the environment at risk.

An Interior Department official said some companies exploring for oil in deep waters that have their wells targeted for shutdown under the Obama administration's offshore drilling ban can continue to operate if certain conditions are met. The official said companies readying an exploratory well for commercial oil or gas production would be

allowed to continue their work. Chevron said it was closing an exploratory well to comply with the drilling moratorium and it has already shut another deepwater well. Separately, Nexen Inc postponed plans to drill a deepwater exploration well in the Gulf of Mexico due to the US government's six month moratorium on deepwater drilling there. It postponed plans to drill a well in the deepwater Kakuna

Market Watch

The National Association of Realtors' index for pending home sales increased by 6% to 110.9 in April, the third consecutive gain. Year over year, the index was 22.4% above its level of 90.6 in April 2009. Pending home sales in March were revised up, with the index rising 7.1% to 104.6, compared with the previously reported increase of 5.3% to 102.9. The NAR estimates existing home sales of 5.39 million this year and 5.66 million in 2011, compared with 5.16 million in 2009.

Iran's central bank will sell 45 billion euros from its reserves to buy dollars and gold ingots.

Singapore Mercantile Exchange will launch a West Texas Intermediate crude futures contract when it debuts in August, competing directly with the NYMEX. The electronically traded WTI contract will be listed for the front month and 11 consecutive months and its size will be 1,000 barrels. The SMX aims to capitalize on the gap between the end of the New York trading session and the beginning of London's session the following day. SMX aims to capture between 3 and 5% of Asia's total derivatives market in terms of volumes, including energy, metals, agriculture, currencies and commodity indices.

The Hound Point terminal in Scotland, the loading terminal for North Sea Forties crude, will be unable to handle Very Large Crude Carriers for three months from July 1st due to planned berth maintenance.

The Colorado State University hurricane forecasting team estimates the 2010 Atlantic hurricane season is likely to produce 10 hurricanes, with five major Category 3 or higher hurricanes. The team said there was a 76% probability of a major hurricane making landfall along the US coast, above the 1950-2000 average of 52%. The CSU team sees a 51% chance that a major hurricane would make landfall on the US East Coast, including the Florida Peninsula and a 51% chance that one would hit the Gulf Coast from the Florida Panhandle to Brownsville, Texas.

API Stocks

Crude – down 1.418 million barrels

Distillate – up 852,000 barrels

Gasoline – down 962,000 barrels

Refinery runs – up 0.7% at 86.6%

prospect. It was the last exploration well Nexen had planned to drill in 2010, after completing two other wells earlier this year.

Iraq's Deputy Oil Minister Abdul Kareem Luaibi said he expected the world oil price to fluctuate between \$70 and \$80/barrel, calling the price unfair but acceptable for the

moment. He said Iraq's expectation is that the oil price will not decrease to less than \$65 to \$70/barrel.

A group of experts, including former weapons inspector David Kay, former US Under Secretary of State Tom Pickering and arms control experts Jeffrey Lewis and Daryl Kimball said world powers should consider Iran's fuel swap plan, even if it is not perfect. They said the offer should be seen as a possible diplomatic opportunity and should not be dismissed. They acknowledged concerns that the new proposal did not address Iran's escalated enrichment work, the size of its uranium stockpile or its need to cooperate with the IAEA by allowing enhanced inspections. They however said the acceptance of the plan could be the first step in a broader diplomatic engagement.

Meanwhile, the US State Department said the US hopes the UN Security Council will vote on an Iran sanctions resolution by June 21st. State Department spokesman Philip Crowley said the US will submit the resolution in the coming days and expect all responsible members of the international community to support the resolution.

Iraq's Foreign Minister Manouchehr Mottaki said any new sanctions against the country risk obstructing a deal on nuclear fuel.

According to a SpendingPulse report by MasterCard Advisors LLC, US gasoline demand increased by 3.7% or 347,000 bpd to 9.709 million bpd in the week ending May 28th. Gasoline demand in the latest week was up 5% or 465,000 bpd on the year. In the last four weeks, gasoline demand was up 2.2% or 203,000 bpd on the year at 9.459 million bpd. It reported that the US average retail price of gasoline fell by 8 cents to \$2.75/gallon on the week.

Refinery News

Valero Energy Corp said there was no material impact to production from unplanned repairs to an electrical subsystem at its 315,000 bpd Corpus Christi, Texas refinery on Tuesday.

ExxonMobil Corp said operations at its 192,500 bpd Chalmette, Louisiana refinery returned to normal after it experienced a compressor malfunction in its fluid catalytic cracking unit late Tuesday.

Kuwait's 270,000 bpd Mina Abdullah refinery resumed operations after it was shutdown due to a fire on Tuesday. Exports were not impacted by the fire.

Japan's Showa Shell Sekiyu has delayed the restart of operations at the 65,000 bpd crude distillation unit at the Keihin refinery due to a problem at a secondary unit. The crude distillation unit, which has been shut since early April in response to weak domestic demand for oil products, was scheduled to restart on May 28th but it expects to restart the unit about a week later. The problem at the secondary unit has not affected operations at the plant's other 120,000 CDU or impacted oil product shipments from the refinery.

Japan's Taiyo Oil Co is scheduled to conduct maintenance on its 88,000 bpd No. 1 crude distillation unit at its Shikoku refinery on June 11th through July 30th and its 32,000 bpd No. 2 crude distillation unit on June 12th through July 31st.

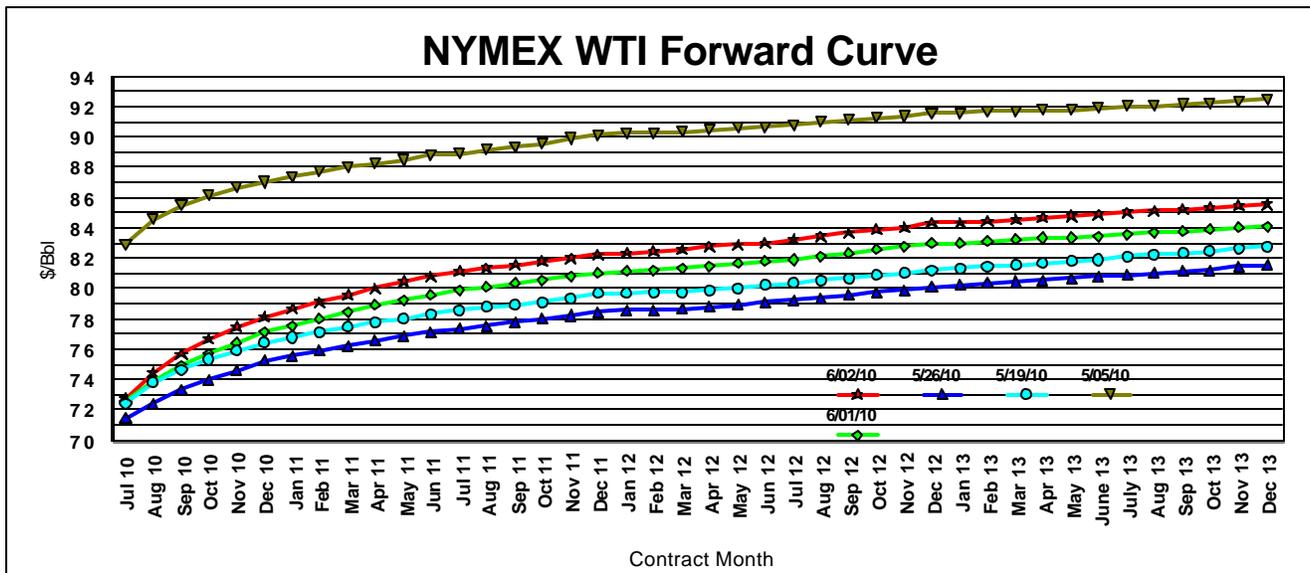
June

Calendar Averages

CL – \$72.72

HO – \$1.9882

RB – \$2.0043



The Petroleum Association of Japan reported that the country's crude inventories in the week ending May 29th increased by 3.49 million barrels on the week but fell by 7.1 million barrels on the year to 97.03 million barrels. Japan's gasoline stocks fell by 280,000 barrels on the week but increased by 1.94 million barrels on the year to 15.97 million barrels while kerosene stocks increased by 440,000 barrels on the week but fell by 1.48 million barrels on the year to 11.33 million barrels and naphtha stocks increased by 1.21 million barrels on the week to 12.79 million barrels. Japanese refiners ran their facilities at an average 63.8% of total capacity, down 2.4% on the week and 4.9% on the year. Its crude runs fell by 110,000 bpd on the week and by 260,000 bpd on the year to 3.06 million bpd. The PAJ also reported that the country's total oil product sales increased by 2% on the week and by 20.2% on the year to 2.43 million bpd. Japan's gasoline sales increased by 4.5% on the week and by 19.3% on the year to 950,000 bpd while its kerosene sales increased by 41.5% on the week and by 117.3% on the year to 150,000 bpd and its gas oil sales increased by 25.9% on the week and by 66.3% on the year to 610,000 bpd. Japan's naphtha sales fell by 70.1% on the week and by 59.2% on the year to 70,000 bpd and jet fuel sales fell by 50% on the week but increased by 38% on the year to 61,000 bpd.

Production News

Russia's Energy Ministry said the country's oil production fell to 10.08 million bpd in May from 10.11 million bpd in April. Russia remained the world's top crude producer ahead of Saudi Arabia. Exports via Transneft increased to 4.44 million bpd in May from 4.27 million bpd in April. The country's seaborne crude oil exports supplied to ports by Transneft increased to 2.92 million bpd in May from 2.79 million bpd in April.

Russia's Rosneft has cut volumes offered on a tender to lift Urals crude from ports on the Black Sea and Baltic Sea in July through September. Rosneft offered to sell between 1.2 and 2.5 million tons of Urals ex-Primorsk in 100,000 ton cargoes. It also offered 420,000 to 1.26 million tons in 140,000 ton cargoes and 240,000 to 1.44 million tons in 80,000 ton cargoes from Black Sea ports.

Norway's Statoil started to pour concrete into a well that shut the North Sea Gullfaks C platform. The platform was evacuated of non-essential personnel on May 20th after changes in well pressure led to a fault on one of two valves designed to prevent a blowout. Production at the small Tordis and Gimle fields is also shut, curtailing production by 60,000 to 70,000 bpd.

Russia's Lukoil said the government may exempt oil fields in the Caspian Sea from export duties. It said it will speed up its Caspian Sea projects if the government goes through with the measure.

Azerbaijan plans to increase daily capacity at the Baku-Tbilisi-Ceyhan oil pipeline to 1.6 million barrels from 1.2 million barrels by 2011. The country's Energy Minister Natiq Aliyev said oil exports are expected to reach 44.37 million tons or 891,000 bpd in 2010. Separately, Azerbaijan is ready to provide its oil transport facilities to neighboring countries for the export of oil to global markets. Azerbaijan has three oil export pipelines with a combined annual throughput capacity of 72 million metric tons of oil. It also has rail links to the Batumi and Kulevi oil terminals on the Georgian Black Sea coast.

OPEC's news agency reported that OPEC's basket of crudes fell to \$70.98/barrel on Tuesday from \$71.88/barrel on Monday.

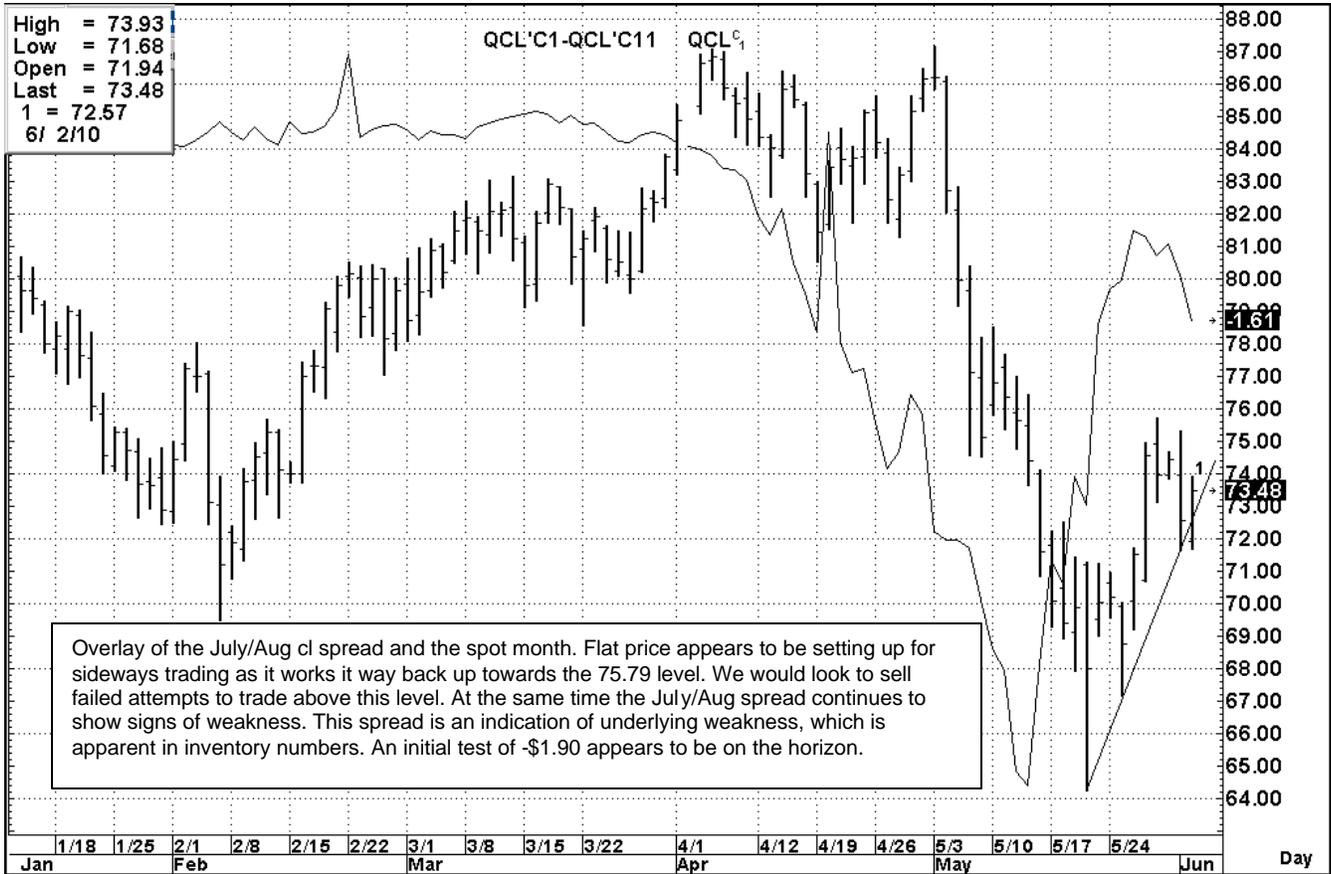
Market Commentary

Early market weakness was met with optimism as U.S. home sales increased for the third straight month. Although not directly related, this brought about hopes of an increase in demand. The equities market also rose, providing additional strength. This rise in prices comes despite an oversupplied market. Perhaps one indication of underlying weakness is the July/August crude oil spread, which weakened by 32 cents. As mentioned in yesterday's wire, we would look for this spread to continue on its weakened path, with an initial test at the -\$1.90 level. The July crude oil contract experienced an inside trading session, whereby it was unable to trade above or below yesterday's range. Today's higher settlement typically means higher prices for tomorrow. With today's inability to trade below yesterday's low, we would look for another run at the \$75.79 area. Any failure to trade above this level should be considered a sell signal.

Crude oil July 10 370,460 -4,388 Aug 10 133,953 +4,141 Sept 10 104,859 -1,298 Totals 1,367,020 +5,077 Heating oil July 10 73,959 -2,283 Aug 10 45,687 +2,383 Sept 10 31,161 +577 Totals 294,522 -1,008 Gasoline July 10 90,012 -1,261 Aug 10 43,925 +1,855 Totals 246,745 +2,092.

The API reported that crude stocks fell by 1.418 million barrels on the week, with a draw of 2.512 million barrels reported in Padd 3 alone. It reported the draw in stocks as crude runs increased by 114,000 bpd to 14.87 million bpd on the week. It also reported that crude imports fell by 719,000 bpd to 8.702 million bpd. The API reported a build of 852,000 barrels in distillate stocks. It showed that Padd 3 distillate stocks built by 1.588 million barrels on the week. It reported a build in distillate stocks as production increased by 228,000 bpd to 4.322 million bpd. It however showed that apparent demand increased by 6.8% on the week to 4.422 million bpd while demand basis its three week moving average fell by 0.3% to 4.346 million bpd. Gasoline stocks fell by 962,000 barrels on the week, with a draw of 1.394 million barrels reported in Padd 2. It reported the draw in stocks despite the increase in production of 180,000 bpd to 9.19 million bpd and the fall in apparent demand. Gasoline demand fell by 2.1% on the week to 9.376 million bpd while apparent demand basis its three week moving average fell by 0.1% on the week to 9.355 million bpd.

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
1.9520, 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



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