

W The
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 JUNE 2, 2011

Two Gulf sources said OPEC may increase supply targets by 500,000 bpd to as much as 1.5 million bpd when ministers meet on June 8th. A delegate said the most likely outcome would be for an increase of 1 million bpd. Meanwhile, Saudi Arabia's Oil Minister Ali al-Naimi said OPEC is ready to increase its oil production to meet any increased demand. He also said OPEC always maintains a spare capacity, currently at about 3 million to 3.5 million bpd. Algeria's Energy Minister Youcef Yousfi said he did not expect OPEC to increase its output at its meeting in Vienna next week.

Separately, Ecuador's Oil Minister Wilson Pastor said OPEC countries may decide to increase output quotas when they meet next week if they see the world oil market undersupplied.

Market Watch

The US Commerce Department said orders for manufactured goods in April fell by 1.2% on the month to \$440.37 billion. This followed a revised 3.8% increase in March, up from a previous estimate of a 3% increase. It reported that orders for durable goods fell by 3.6% in April compared with an increase of 4.6% in March.

The US Labor Department said nonfarm business productivity increased at a 1.8% annual rate in January through March after increasing by 2.9% in the fourth quarter of 2010. The report showed that unit labor costs increased at a 0.7% annual rate in the first quarter following a downwardly revised 2.8% decline at the end of 2010.

The Labor Department also reported that initial unemployment claims fell by 6,000 to a seasonally adjusted 422,000 in the week ending May 28th. The prior week's figure was revised to 428,000 from an originally reported 424,000. The four week moving average of new claims fell by 14,000 to 425,500 in the week ending May 21st. The report showed that the number of continuing unemployment benefit claims fell by 1,000 to 3,711,000 in the week ending May 21st. The unemployment rate for workers with unemployment insurance was 3% in the week ending May 21st, unchanged from a week earlier.

The Fed said in its 2010 annual report that its policy makers would eventually need to act to keep inflation in check but plan to continue easy money policies for an extended period. The report stressed that the Fed has the tools it needs to tighten interest rates at the appropriate time.

The Royal Bank of Canada said its consumer outlook index increased to 46.7 in June from 42.9 in May. It said the improvement is likely a response to the sharp decline in gasoline prices over the last few weeks. The RBC current conditions index advanced to 36.8 in June from 32.9 in May. The expectations index increased to 56.6 from 53.2.

Sales at stores open at least a year increased 4.9% in May at retailers tracked by Thomson Reuters, below the 5.4% market expectation. High prices for food and gasoline cut into sales at big US retailers in May.

IntercontinentalExchange reported the average daily volume for ICE's futures markets in May was 1,429,907 contracts, down 1% on the year.

Goldman Sachs Group Inc received a subpoena from the Manhattan District Attorney's office seeking information on its activities leading into the credit crisis. The subpoena is related to the US Senate report on Wall Street's role in the housing market collapse.

DOE Stocks

Crude – up 2.878 million barrels
Distillate – down 976,000 barrels
Gasoline – up 2.553 million barrels
Refinery runs – down 0.3%, at 86%

According to Oil Movements, OPEC's oil exports, excluding Angola and Ecuador, are expected to increase by 160,000 bpd to 22.88 million bpd in the four weeks ending June 18th.

The EIA said US crude oil inventories in May averaged 371.34 million barrels, the highest level since at least 2006. Crude stocks increased by 2.88 million barrels to 373.81 million

barrels in the last week of the month.

Iran's President Mahmoud Ahmadinejad appointed a close ally Mohammad Aliabadi as caretaker of the country's oil ministry.

France's Foreign Minister Alain Juppe said France is ready to hold a Middle East peace conference before the end of July in a bid to start stalled negotiations.

Flights were suspended at Yemen's Sanna airport on Thursday due to fighting between tribesman and forces loyal to President Ali Abdullah Saleh.

Refinery News

TransCanada Corp said the flow of crude oil through the Keystone Pipeline may not resume until next week. The 591,000 bpd pipeline was shut on Sunday due to a leak at a northeast Kansas pumping station. The line was pumping about 480,000 bpd of crude before a fitting failed at the Severance pumping station.

Magellan Midstream Partners resumed partial operations at its terminal in Gibson, Louisiana late Tuesday afternoon following lower water levels on the Atchafalaya River. The company said it was able to receive barges on one of its two docks.

A crude distillation unit remained shut at ConocoPhillips' 238,000 bpd Bayway refinery in Linden, New Jersey following a furnace fire on Wednesday. The unit remains shut for assessment and repair while the rest of the refinery is operating at reduced rates.

Valero Energy Corp reported emissions due to the loss of sulfur plant trains at its 80,887 bpd refinery in Wilmington, California.

Citgo Petroleum reported a flaring event at its 167,000 bpd refinery in Lemont, Illinois. A report filed with state regulators did not indicate a cause for the flaring.

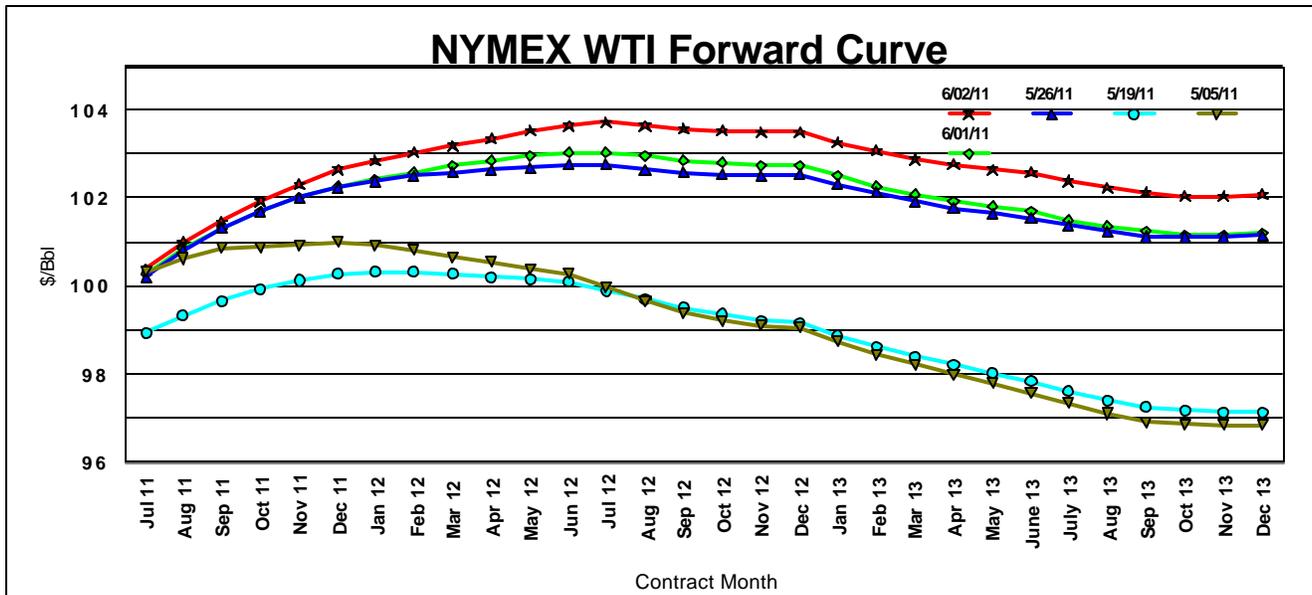
The Nigerian National Petroleum Corp said Nigeria's four refineries are working and producing at an average rate of 60% of capacity. Nigeria's refineries have the potential to process 445,000 bpd of crude oil but they have never reached full production because of sabotage and poor maintenance.

PetroChina plans to shutdown a 100,000 bpd crude distillation unit at its Lanzhou refinery from June 20th for about a month of maintenance. It also plans to shut a 3 million ton/year residual fluid catalytic cracker, a 1.2 million ton/year diesel hydrotreating unit and 600,000 ton/year continuous reformer for maintenance.

Officials stated that a crude tanker carrying the first shipment of oil from the rebel controlled east Libya is bound for the port of Oahu, Hawaii. It is expected to arrive on June 6th.

June Calendar Averages
CL – \$100.35
HO – \$3.0263
RB – \$2.9725

Singapore's International Enterprise reported that the country's residual fuel



stocks fell by 1.537 million barrels to 20.18 million barrels in the week ending June 2nd. The country's light distillate stocks increased by 655,000 barrels to 10.365 million barrels and middle distillate stocks increased by 698,000 barrels to 12.652 million barrels on the week.

Production News

BP Plc said the North Sea Forties pipeline system will shut for five days starting August 1st for planned maintenance and the disposal of an unexploded World War II mine found in March. Separately, BP said the Greater Plutonio field in Angola is currently shut for planned turnaround. The field is expected to resume production of 170,000 to 190,000 bpd following the completion of maintenance work this month.

Russia's Energy Ministry reported that the country produced an average of 10.26 million bpd of oil in May. It matched the post-Soviet record of 10.26 million bpd seen in October. In the first five months of the year, Russia's production of crude oil and gas condensate totaled 210.68 million tons, up 1.3% on the year.

The Canadian Association of Petroleum Producers said the country's oil production in 2011 is expected to increase 3.6% to 2.9 million bpd. Canada's oil sands production in 2011 is estimated to average 1.6 million bpd, up from 1.5 million bpd in 2010. Its oil sands production is expected to increase to 2.2 million bpd by 2015, 3 million bpd by 2020 and to 3.7 million bpd by 2025.

Brazil's Petrobras will remain a net oil exporter in 2011 in terms of volumes, despite increased domestic demand and an ethanol shortage that caused the company to import gasoline for a second consecutive year. Petrobras expects that crude oil exports would increase as production increases during the year while imports of oil products should fall as domestic consumption starts a seasonal decline.

Azerbaijan's SOCAR said the country's oil exports via Russia in January-May increased 4.8% on the year to 920,131 tons.

Russian and Kazakh oil exports via the Caspian Pipeline Consortium is expected to fall in June to 2.542 million tons, down from 2.643 million tons originally planned for the month.

Abu Dhabi National Oil Co set the official selling price of its Murban crude oil at \$113.60/barrel retroactively for May term supply, down \$7.10/barrel on the month.

Market Commentary

Early session gains were negated after an unexpected 2.9 million barrel increase in crude oil inventories. The remainder of the session was choppy, with prices trading on either side of unchanged as the market reacted to weakness in the dollar. The significant increase in gasoline stocks (2.55 million barrels) added to the bearish flavor, while the 976,000-barrel decrease in distillate stocks pulled heating oil higher. Refiners have been curtailing the running of distillates due to the lack of demand. While crude oil appears to be range bound, our overall bias is to the down side and we are still looking for a test at the \$89.45 support area, with an ultimate objective of \$85.00. The June 12/Dec 12 crude oil spread we wrote about yesterday penetrated the .19 support area. Currently there is support at -.08. Based upon a break below this level, we would add to short positions, still looking for a test back down to -.80.

Crude oil: July 11 355,555 -9,675 Aug 11 104,752 +5,798 Sept 11 105,949 -102 Totals 1,511,593 +3,175 Heating oil: July 11 103,011 -649 Aug 11 43,292 +127 Sept 11 33,436 +876 Totals 301,588 +1,217 Rbob: July 11 85,736 -5,273 Aug 11 35,791 +4,434 Sept 11 35,793 +828 Totals 253,460 -648.

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
9620	10340		31325		
9535	10845	27695	32777		33369
9284	11120	26680	33370	26965	35915
8945	11483	27375	33510	26300	36310
8700	11563	23685		25683	
8625	11703	22960		25145	
8500	12126			24240	
8385	14933			23631	
				23414	

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 permission is prohibited.