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## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR JUNE 3, 2011**

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The chief economist of the IEA, Fatih Birol said global markets urgently need extra oil as refinery demand is about to increase. He said global refinery demand is expected to grow by 3-3.5 million bpd by the next quarter as refiners increase activity to meet higher demand.

Oil Movements said Middle Eastern shipments

from OPEC are expected to decline slightly by 60,000 bpd in the week ending June 18<sup>th</sup>.

#### Market Watch

The US Labor Department reported that hiring by US companies slowed in May and the unemployment rate continued to increase. It reported that nonfarm payrolls increased by 54,000 in May as the private sector posted the smallest job gain in nearly a year. Payroll data for the previous two months were revised down by a total of 39,000 to show an increase of 232,000 jobs in April and 194,000 jobs in March. The unemployment rate unexpectedly increased to 9.1% in May from 9% in April.

The Institute for Supply Management's non-manufacturing purchasing managers' index increased to 54.6 in May from 52.8 in April. Its business activity/production index fell slightly to 53.6 from 53.7 in April while the new orders index increased to 56.8 from 52.7. The ISM employment index increased to 54 in May from 51.9 in April.

The Markit Eurozone Services PMI fell in May to 56 from 56.7 in April. It was revised up from the preliminary May reading of 55.4.

Britain's service sector grew at its slowest pace for three months. The Markit/CIPS headline services PMI index fell to 53.8 last month from 54.3 in April, the lowest level since February.

According to Reuters, the demand for vehicles with higher gas mileage is more restrained than three years ago and is beginning to fade even as gasoline prices test their 2008 highs. In May, the average fuel economy of new US light vehicles actually fell for the second consecutive month to the lowest since January. Since January, the average mileage increased by 1.4% to 21.9 miles/gallon.

Angola's Oil Minister Jose Botelho de Vasconcelos said he saw current oil prices as balanced in contrast with concerns by other OPEC members. Some OPEC members have suggested current prices at about \$110/barrel in Brent crude and \$100/barrel in WTI crude were too high as they could impact oil demand.

Iran's new oil ministry caretaker is likely to represent Iran at the next OPEC meeting. It would make him chairman of the oil policy meeting on Wednesday. Late Thursday, Iran's President Mahmoud Ahmadinejad appointed Mohammad Aliabadi as the caretaker of the oil ministry.

Iran rejected a request by the UN's IAEA for prompt cooperation with an investigation into possible military aspects of Iran's atomic activities. The IAEA is voicing concern about allegations Iran may have carried out military related atomic work.

**June  
Calendar Averages**  
**CL – \$100.30**  
**HO – \$3.0364**  
**RB – \$2.9794**

The leader of a powerful Yemeni tribal federation on Friday denied his group was behind an attack on the presidential palace earlier in the day that injured several officials. The head of the Hashed federation blamed President Ali Abdullah Saleh for the attack, saying it was done to help justify a government escalation of street fighting in the capital. Separately, a Yemeni based Western diplomat said the country's President was slightly wounded in an attack on his palace on Friday.

**Refinery News**

TransCanada Corp has repaired parts of its 591,000 bpd Keystone pipeline and has filed a restart plan with US regulators. It is conducting its own investigation of the May 29<sup>th</sup> oil spill.

Citgo Petroleum Corp reported equipment failure at its 167,000 bpd Lemont, Illinois refinery late Thursday night. The refinery has been operating at reduced rates since a steam boiler and associated processing equipment were shut on Wednesday for repairs.

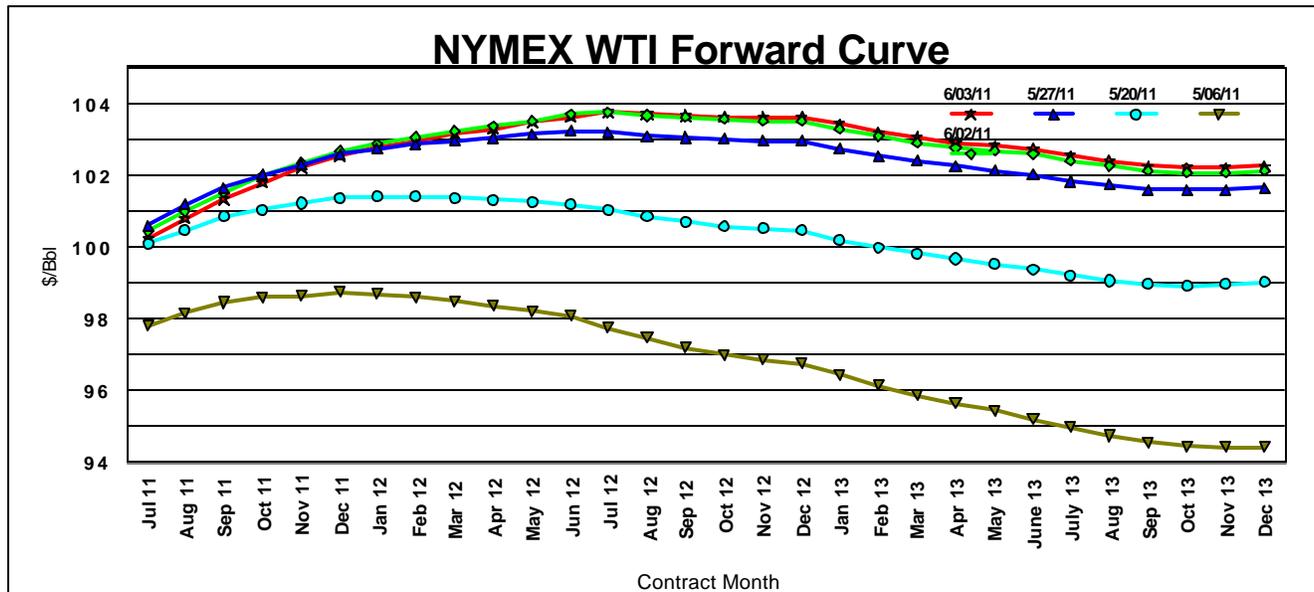
ExxonMobil Corp is conducting planned maintenance at its 562,500 bpd refinery in Baytown, Texas.

Chevron Corp's 220,000 bpd Pembroke refinery in Wales is operating at normal capacity on Friday after a storage tank at the facility exploded late Thursday. The explosion occurred as workers were performing maintenance. It is launching an investigation into the cause of the explosion. Chevron Corp said it saw no reason why the explosion of a storage tank at the refinery should affect its planned sale to Valero Energy Corp. The sale is expected to close in the third quarter of this year. In response, Valero said it was too early to say whether an explosion at a refinery it is in the process of buying from Chevron would affect its plan to buy the refinery.

Hess Corp said emissions had no impact on production at its 70,000 bpd Port Reading refinery in New Jersey. The refinery was operating normally.

Valero Energy Corp said its 80,887 bpd refinery in Wilmington, California is operating at planned rates. Its gasoil hydrotreater was restarted soon after it suffered a problem.

PBF Energy reported a flaring event involving the release of propane at its 182,000 bpd refinery in Delaware City, Delaware on Wednesday.



Japan's Idemitsu Kosan Co is likely to restart the 140,000 bpd crude distillation unit at its Hokkaido refinery by the end of next week. The unit was shut on May 31<sup>st</sup> due to a problem.

Japan's Toa Oil Co scheduled maintenance this month of some secondary units at its 65,000 bpd Keihin refinery's Mizue plant.

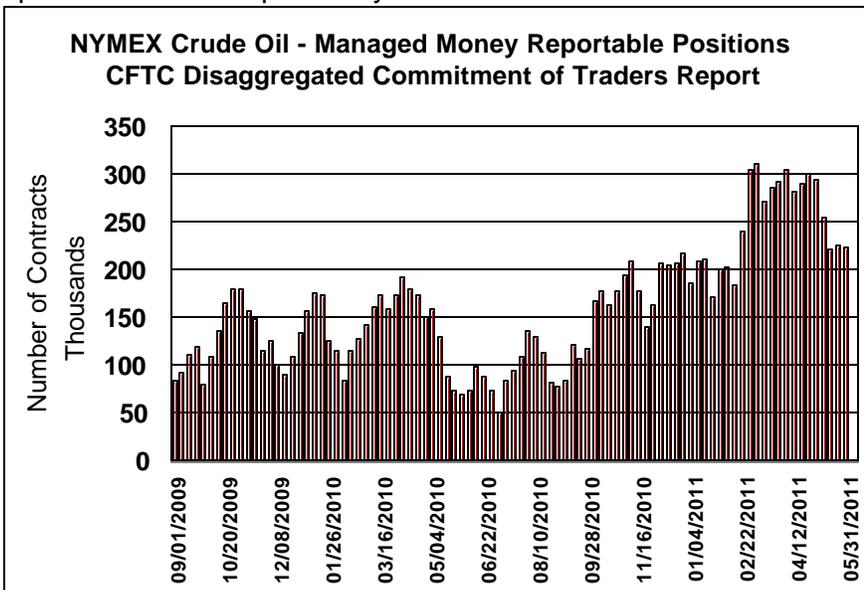
Traders said a fire at a power substation at Gazprom Neft's Moscow refinery interrupted oil product loadings at the 200,000 bpd refinery. Gazprom however said the refinery was operating normally and loading oil products after the fire was extinguished.

China's Sinopec is scheduled to shut its 200,800 bpd Qingdao refinery starting June 20<sup>th</sup> for 45 days of maintenance work. The refinery's capacity will be expanded by 10% to 220,900 bpd and will be brought online in early August.

**Production News**

Baker Hughes said it expects the second half of 2011 to be much better in the US Gulf of Mexico as work resumes on several deepwater wells. It said drilling had started on only about half of the dozen deepwater wells permitted in the US Gulf so far, with 11 more permits pending where customers had awarded service contracts.

According to a Dow Jones survey, OPEC's total oil production in May increased by 355,000 bpd on the month to 29.103 million bpd. It reported that Saudi Arabia's oil production increased by 450,000 bpd to 9 million bpd in May. However much of the increase in Saudi Arabia's oil production was due to domestic demand for power generation increases. It also reported that Libya's oil production in May stood at 200,000 bpd, down 25,000 bpd on the month. Iraq's oil production increased by 50,000 bpd to 2.74 million bpd in May.



Iraq's SOMO stated that the country exported 2.225 million bpd of crude oil in May, up 84,000 bpd from April and the highest level since the 2003 war. Iraq's southern oil exports increased by 69,000 bpd to 1.725 million bpd in May, while exports from northern Iraq increased by 15,000 bpd to 500,000 bpd. Out of the total exported through the northern pipeline system, 490,000 bpd was exported from the Turkish Mediterranean port of Ceyhan and 10,000 bpd by tanker trucks to Jordan.

Brazil's Petrobras said it would nearly triple its output in the next 10 years to 6 million bpd.

ConocoPhillips and CNOOC Ltd plan to develop a new offshore oil field at Bohai Bay in China, linking it to existing floating production and storage facilities at their joint Penglai 19-3 oil field. The initial plan calls for the building of a new production platform at the Penglai 19-9 field. The development could start at the field as early as next year.

Russia's Transneft has stopped receiving about 161,000 barrels of oil through one of its domestic pipelines due to an explosion at an arms depot in the area. The pipeline received almost 132,000 bpd from Rosneft as well as shipping oil from Lukoil and Rusneft.

**Market Commentary**

The oil market early in the session traded lower following the release of a disappointing US employment report. The market sold off from an overnight high of \$100.87 to its low of \$98.12 in light of the Labor Department reporting that nonfarm payrolls increased by 54,000 in May compared with market expectations of an increase of 160,000. The Labor Department reported that the unemployment rate increased to 9.1% in May from 9% in April. The oil market however bounced off that level as another economic report provided some support. The Institute for Supply Management's non-manufacturing purchasing managers' index increased to 54.6 in May from 52.8 in April. The market traded to \$100.13 and remained range bound before further buying in afternoon trading pushed the market back up to positive territory as it traded above \$100.40. The market later remained range bound and settled down 18 cents at \$100.22. The crude market is seen continuing to trade in its sideways pattern. It is seen finding support at its low of \$98.12, \$96.37, \$95.54 and \$95.18. Resistance is however seen at \$100.93, \$103.39, \$105.16 and \$109.85.

Crude oil: July 11 338,132 -17,423 Aug 11 110,692 +5,940 Sept 11 114,632 +8,683 Totals 1,515,219 +3,626 Heating oil: July 11 102,166 -845 Aug 11 42,612 -680 Sept 11 33,953 +517 Totals 303,092 +1,504 Rbob: July 11 85,600 -136 Aug 11 40,386 +4,595 Sept 11 35,405 -388 Totals 256,135 +2,675.

The Commitment of Traders report showed that non-commercials in the crude market cut their net long position by 8,055 contracts to 191,137 contracts in the week ending May 31<sup>st</sup>. The combined futures and options report showed that the funds cut their net long position by 5,545 contracts to 248,769 contracts on the week. Meanwhile, the disaggregated futures and options report showed that managed money funds cut their net long position by 1,236 contracts to 224,441 contracts on the week.

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
9812	10093		31325		
9637	10339	27695	32777		33369
9554	10516	26680	33370	26965	35915
9518	10985	27375	33510	26300	36310
9497	11527	23685		25683	
		22960		25145	
				24240	
				23631	
				23414	

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