



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR JUNE 7, 2011**

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The IEA renewed its call on OPEC to increase its oil production as much as possible to protect the global economic recovery. The IEA's chief economist Fatih Birol said he was concerned that the current political unrest in the Middle East and North Africa may delay \$60 billion of yearly investments needed to increase oil production in the region.

OPEC's ministerial committee recommended that OPEC increase its production at its

#### Market Watch

The close of the open season for the proposed 450,000 bpd Double E pipeline between Cushing, Oklahoma and Houston, Texas is July 8<sup>th</sup>. Enterprise Products Partners and Energy Transfer Partners should be able to finance the project and start construction if it receives enough firm commitments. If successful, the Double E project would mean partial but significant relief for the pipeline bottleneck at Cushing as soon as the fourth quarter of 2012. It would likely support the continued narrowing of the spread between WTI and Brent. A failed open season however could drive long dated spreads wider, given the uncertain prospects for other relief pipelines at Cushing, Oklahoma. Double E, if built, would offset the imbalance in pipeline capacity at Cushing, where inbound capacity exceeds outbound capacity by about 200,000 bpd.

The US Labor Department said US job openings fell in April as private sector hiring fell. There were 3.97 million open positions in April, down from 4.07 million in March. The hiring rate fell to 3% from 3.1%. Private sector hires fell to 3.781 million from 3.81 million.

Federal Reserve Bank of Dallas President Richard Fisher said he expects stronger US growth in the second half of the year. He maintained his assertion that more stimulus was not needed to help stimulate the US economy once the current \$600 billion Fed program ends, as expected at the end of this month.

The European Union's statistics office Eurostat said retail sales in the euro zone increased 0.9% on the month in April for a 1.1% year on year gain.

The Securities Industry and Financial Markets Association plans to formally ask the Securities and Exchange Commission to delay implementing most derivatives provisions in the Dodd-Frank law that are due to go into effect automatically on July 16<sup>th</sup>. It raised concerns about at least 50 provisions that would technically become effective even though regulators are still finalizing the rules.

The International Air Transport Association said carriers would hedge 30% of their fuel purchases in 2011, up from 10-20% last year. It said that a lack of protection against price fluctuations would mean higher jet kerosene prices adding more than \$20 billion to the industry's fuel costs.

In an article posted on the website of the China Finance 40 Forum, a Beijing based think tank, a senior Chinese currency regulator said China must be alert to the risk of holding too many dollars as the US is pursuing loose monetary and fiscal policies. The dollar fell against the euro as a result.

#### API Stocks

**Crude** – down 5.512 million barrels  
**Distillate** – up 1.774 million barrels  
**Gasoline** – down 390,000 barrels  
**Refinery runs** – up 0.7%, at 84.7%

meeting on Wednesday. A source said an increase of 1 million to 1.5 million bpd would be suggested.

A senior Gulf industry official familiar with Saudi policy said Saudi Arabia is planning to increase its oil production in June in effort to lower oil prices. It expects to increase its

production by more than 500,000 bpd in June to its highest level for three year. Saudi production is likely to average 9.5-9.7 million bpd in June. Separately, the Financial Times reported that Saudi Arabia is increasing its crude oil production by about 200,000 to 300,000 bpd this month.

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| <b>June</b><br><b>Calendar Averages</b><br><b>CL – \$99.80</b><br><b>HO – \$3.0407</b><br><b>RB – \$2.9760</b> |
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Kuwait’s Oil Minister Mohammad Al-Busairi expects OPEC to increase its production at its meeting on Wednesday. He said there is a need for more supply in the market. However he said he was unsure by how much OPEC would increase its crude production.

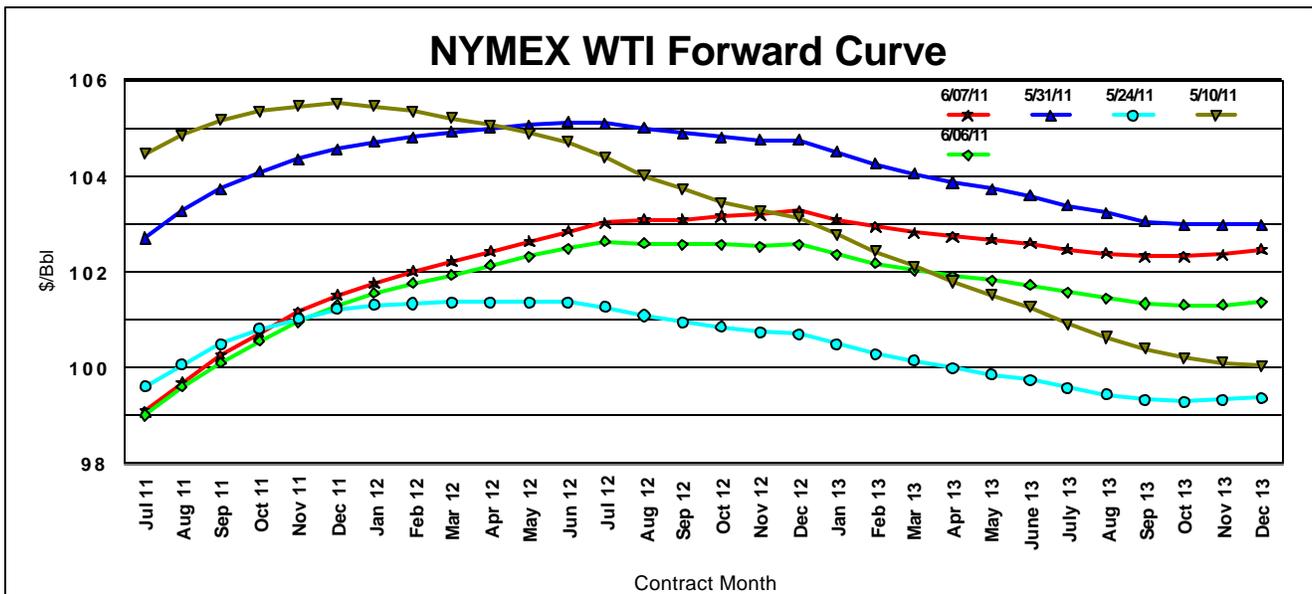
UAE Oil Minister Mohammad Al-Hamli said the oil market will tighten after the second quarter. However he stopped short of predicting that OPEC would increase its output this week. OPEC officials in recent days have said the organization is likely to increase output this week. OPEC delegates said Saudi officials are circulating a plan to increase OPEC output by at least 1 million bpd and up to 1.5 million bpd at the group’s meeting on Wednesday.

Iraq’s Oil Minister Abdul Kareem Luaiby said current oil prices do not pose a threat to economic growth and there is no need for OPEC to increase output this week. He said a price between \$100 and \$120/barrel is reasonable.

Vitol chief executive Ian Taylor said global physical crude oil supply and demand are balanced. However he stated that much of the consuming world would welcome a production quota increase by OPEC. He sees no significant increase in oil prices in the second half of the year.

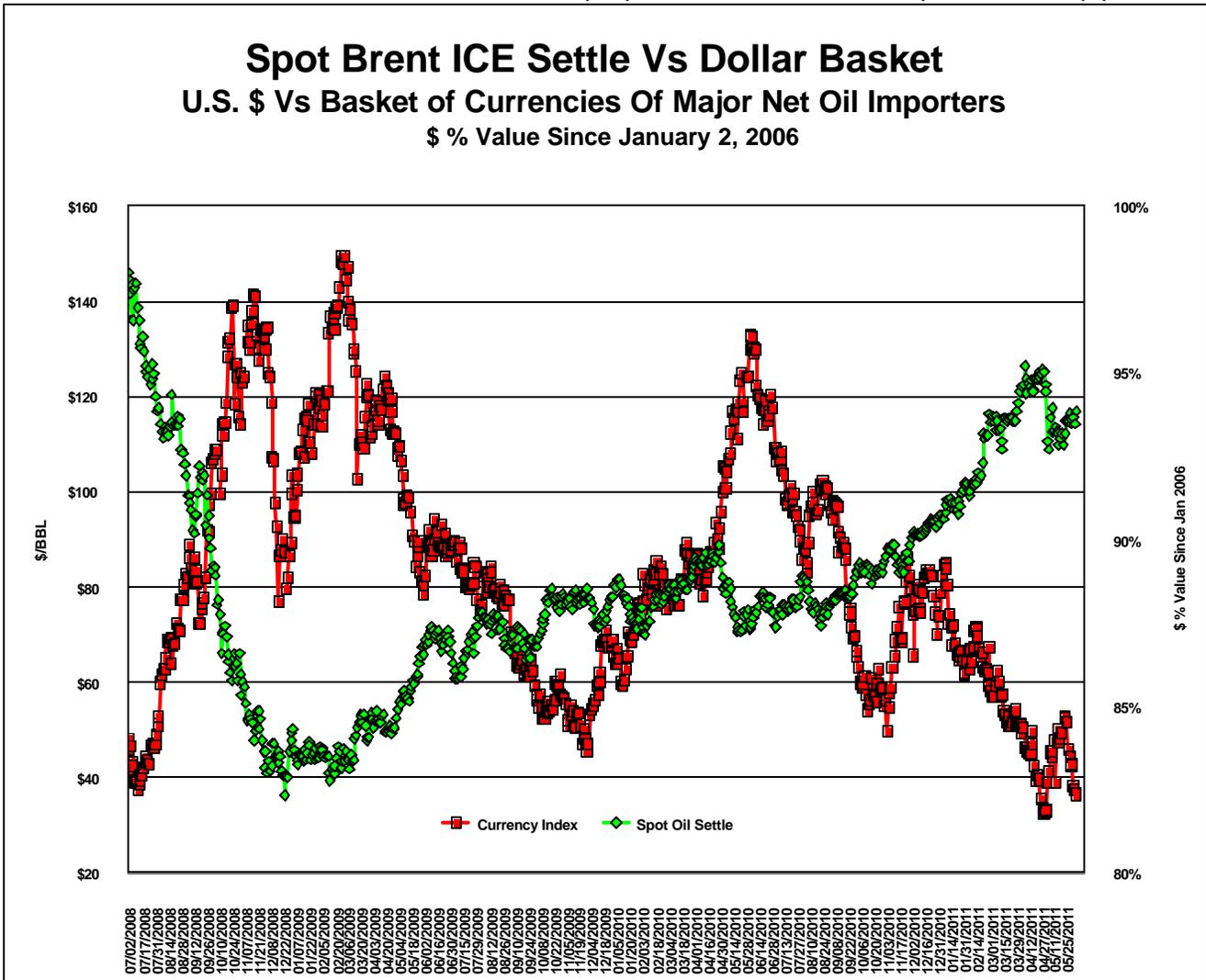
Russia’s Prime Minister Vladimir Putin said that the West was largely responsible for high energy prices, citing unrest in North Africa and the US led invasion of Iraq in 2003.

The EIA in its Short Term Energy Outlook, total world oil demand is estimated to grow by 1.7 million bpd, which is about 300,000 bpd higher than its previous estimate while demand is estimated to increase by 1.59 million bpd in 2012, unchanged from its previous estimate. Demand in 2011 is estimated at 88.43 million bpd while demand in 2012 is expected to total 90.02 million bpd. The EIA projects that non-OPEC crude production would increase by 590,000 bpd in 2011 to 52.28 million bpd and increase by 500,000 bpd in 2012 to 52.78 million bpd. OPEC’s oil production in 2011 is expected to fell by 370,000 bpd to 29.4 million bpd but increase by 660,000 bpd to 30.06 million bpd in 2012. It



said OPEC increased its production in May to 29.18 million bpd from 28.96 million bpd in April. It reported that OECD inventories are expected to fall by 118 million barrels in 2011 to 2.529 billion barrels and fall further by 109 million barrels to 2.42 billion barrels in 2012. The EIA reported that total US oil demand is expected to increase by 150,000 bpd to 19.3 million bpd in 2011 and increase further by 130,000 bpd to 19.43 million bpd in 2012. Gasoline demand in 2011 is expected to remain unchanged at 9.03 million bpd but increase by 70,000 bpd to 9.11 million bpd in 2012. Distillate demand in 2011 is estimated to increase by 100,000 bpd to 3.89 million bpd followed by an increase of 50,000 bpd to 3.94 million bpd in 2012. The EIA stated that an expected active 2011 hurricane season would likely shut in 19 million barrels of US crude oil production in the Gulf of Mexico and 53 bcf of natural gas output. In regards to prices, the EIA estimated US refiner crude oil average acquisition costs at \$104/barrel in 2011 and \$108/barrel in 2012, up \$1/barrel from its previous estimate. It also forecast that the average retail price of gasoline would increase from \$2.78/gallon in 2010 to \$3.60/gallon in 2011 and to \$3.67/gallon in 2012. It expects the average retail price of diesel to increase from \$2.99/gallon in 2010 to \$3.87/gallon in 2011 and \$3.95/gallon in 2012.

The US EPA told the State Department that recent spills on the existing Keystone Pipeline underscores the need to consider the route and spill prevention measures on planned new pipelines.



NATO aircraft attacked Libya's capital Tripoli on Tuesday in its heaviest strikes yet. Meanwhile, Libya's leader Muammar Gaddafi remained defiant, vowing to fight to the death. He said he was

ready to unleash 250,000 to 500,000 armed Libyans to move across the country to cleanse it from "armed gangs."

Saudi Arabia's Interior Ministry said two Saudi border guards were killed and one wounded by a man trying to cross into Yemen from Saudi Arabia early Tuesday.

### **Refinery News**

Enbridge Inc said a leaking pipeline in the Northwest Territories spilled as much as 1,500 barrels, higher than its initial estimate for a four barrel leak. It said its initial forecast for the size of the spill on the Norman Wells line was based on the amount of oil that collected on the surface.

ExxonMobil reported emissions of nitrogen oxides as a result of flaring at its 238,600 bpd Joliet, Illinois refinery.

Tesoro Corp said its 58,000 bpd Mandan, North Dakota refinery returned to normal rates after lifting flood related weight limits on tank trucks carrying crude to the refinery. Tesoro Corp also said operations were being restored to normal at its 96,860 bpd refinery in Wilmington, California. A power outage on Monday afternoon temporarily affected several unspecified process units.

Citgo said its fluid catalytic cracking unit 2 at the East Plant of its 163,000 bpd Corpus Christi, Texas refinery was restarted Monday evening.

BP is scheduled to perform maintenance on the wet gas scrubber in a fluid catalytic cracking unit at its 437,080 bpd Texas City, Texas refinery from May 7-9.

Valero Energy Corp restored power at its 310,000 bpd Port Arthur, Texas refinery after an outage forced the shutdown of unspecified units on Monday evening. Valero is still assessing the production capability at its refinery. Separately, Valero said its 214,000 bpd Texas City, Texas refinery was operating at planned rates following a power outage on May 27<sup>th</sup>.

Western Refining said its 122,000 bpd El Paso, Texas refinery was back to normal rates following a power outage. Several units were shut due to the power outage early Monday.

Japan's Teiseki Topping Plant Co said it would restart a 4,724 bpd crude distillation unit at its Kubiki plant on Wednesday as scheduled. The unit has been shut since May 24<sup>th</sup> for maintenance.

China's major refineries are expected to cut their crude oil throughput in June by about 2.8% on the month to 2.73 million bpd, down from 2.81 million bpd in May as heavy maintenance and high oil costs dampen operating levels.

Malaysia's Petronas plans to shut a processing train at its 300,000 bpd Melaka refinery in July for about 20 days of routine maintenance. The plant due to shutdown operates at about 170,000 bpd and includes a crude distillate unit and coker unit.

India's Mangalore Refinery & Petrochemicals Ltd said it would miss its January 2012 deadline to commission its expanded refinery because of land acquisition issues. The refinery's capacity is expected to expand by 27% to 300,000 bpd from its current capacity of 236,400 bpd.

LyondellBasell Industries said its Equistar Chemicals unit agreed to buy about 200 miles of pipeline near Houston from BP Plc. The pipelines and metering stations include a Houston olefins distribution system that transports ethylene and propylene from Channelview, Texas to Equistar's storage

terminal at Mont Belvieu and facilities in Deer Park, La Porte and the Bayport Industrial District in Pasadena, Texas.

### **Production News**

The Norwegian Petroleum Directorate said Statoil made a small oil and condensate discovery near Gullfaks South in the North Sea.

Danish North Sea oil fields stabilized their gradually declining production output in May. Production from the fields increased 4.5% on the month to 207,300 bpd of oil equivalent from 198,300 bpd of oil equivalent in April.

Iraq's Oil Minister Abdul Kareem Luaiby said it would export more crude oil than expected by the end of 2011. Iraq is targeting to reach an export level of 2.5 million bpd by the end of the year, up from an original target of 2.2 million bpd. Iraq's Oil Minister said the country is considering cutting its target to increase its oil output capacity to 12 million bpd and could renegotiate deals with global oil companies accordingly. He said the timeframes agreed with oil companies to reach output targets could be extended to 13 to 14 years from six to seven years under their existing contracts.

Royal Dutch Shell expects its 140,000 bpd joint venture gas-to-liquids project in Qatar to start in a few weeks.

Qatar said it would increase its shipments of liquefied petroleum gas to 11 million tons/year in 2011 from 8.5 million tpy in 2010.

Brazil's OGX Petroleo e Gas Participacoes SA is expecting to produce 730,000 bpd of oil equivalent by the end of 2015. It said its first floating production, storage and offloading vessel is scheduled to arrive at the Waimea field in the Campos Basin in the third quarter. Waimea is expected to produce about 20,000 bpd by the end of 2011.

Brazilian oil and gas start up HRT, which plans to begin production this year, hopes to produce 1 million bpd of oil and gas by 2020.

Ecuador's Central Bank said the country exported 8.42 million barrels of crude in April, down 21% from 10.72 million barrels a month before.

### **Market Commentary**

The oil market traded mostly sideways and settled nearly flat as traders remained on the sidelines ahead of OPEC's meeting on Wednesday. The crude market traded to its low of \$97.74 early in the session amid expectations that OPEC would increase its production quota. The market however bounced off its low and traded sideways before it traded to its high of \$99.75 in afternoon trading. It erased some of its gains and settled up 8 cents at \$99.09. Unlike the WTI crude, Brent crude rallied sharply, settling up \$2.30 to \$116.78. The rally in the Brent contract, sent its differential with WTI crude to \$17.69/barrel, up from \$15.47 yesterday. The Brent contract continued to trade at a steep premium to WTI amid high inventory level at the NYMEX delivery point of Cushing, Oklahoma. Also, escalating unrest in Yemen and Syria has increased concerns over additional supply disruptions and North Sea production issues remain a concern. While the market on Wednesday may trade lower if OPEC decides to increase its quota, its losses are seen limited as the increase seems to be priced in the market. The market is seen finding support at \$98.60, \$97.90 and its low of \$97.74. Further support is seen at \$96.37, \$95.54, \$95.18 and \$94.97. Resistance is seen at \$99.75, \$100.68, \$100.93 and \$103.39.

Crude oil: July 11 317,727 -10,478 Aug 11 117,372 +2,837 Sept 11 121,462 +1,686 Totals 1,505,024  
 -7,355 Heating oil: July 11 97,332 -3,356 Aug 11 46,964 +1,628 Sept 11 37,760 +1,314 Totals  
 312,422 +1,864 Rbob: July 11 83,344 -2,727 Aug 11 40,995 +39 Sept 11 35,668 -530 Totals 255,255  
 -3,476.

| Crude Oil |            | Heating Oil |            | Rbob    |            |
|-----------|------------|-------------|------------|---------|------------|
| Support   | Resistance | Support     | Resistance | Support | Resistance |
| 9860      | 9975       | 30015       | 30680      | 29284   | 30165      |
| 9774      | 10068      | 29852       | 30691      | 29200   | 30575      |
| 9637      | 10093      | 29762       | 30750      | 28435   | 30889      |
| 9554      | 10339      | 27885       | 30950      | 28214   | 32404      |
| 9518      | 10516      | 27695       | 31825      | 26965   | 32591      |
| 9497      | 10985      | 27375       |            | 26300   | 33652      |
|           | 11527      | 23685       |            | 25683   |            |
|           |            | 22960       |            | 25145   |            |
|           |            |             |            | 24240   |            |

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