



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JUNE 8, 2010

Kuwait's Oil Minister Sheikh Ahmad al-Abdullah al-Sabah said that current oil prices were acceptable and there was no need for OPEC to call an extraordinary meeting. He said oil prices are expected to remain at current levels throughout the year. He said speculation was driving the market and he was not aware of any other OPEC members concerned that prices were around \$70/barrel.

Angola's Oil Minister Jose Maria Botelho de Vasconcelos expects oil prices ending the year at \$80/barrel.

In its latest Short Term Energy Outlook, the EIA lowered its world oil

Market Watch

Diamond Offshore Drilling Inc said it was unable to comment on reports of a leak near its Ocean Saratoga rig in the Gulf of Mexico. The Alabama Press-Register, citing a federal document, and Business Insider both carried reports of the leak, which they said has been going on at least since April 30th.

Valero Energy Corp chief executive Bill Klesse said that while US demand for gasoline is starting to improve, he is more optimistic about global diesel markets over the long term. He said the US refining industry has lost 11 years of demand for gasoline due to the recession and added that the US lost about 500,000 bpd of diesel demand. However he said diesel offers an attractive growth opportunity. He expects diesel demand to quadruple by 2022 to 95 million to 100 million bpd.

Societe Generale lowered its US crude oil average price forecast for 2011 to \$92.30/barrel, down from its previous estimate of \$101/barrel due to slower than expected fuel demand recovery. It also cut its third and fourth quarter 2010 price targets of \$80 and \$85/barrel, respectively.

Senate Finance Committee chairman Max Baucus said new Senate language for a jobs and tax bill retains a proposed one-year revival of the \$1/gallon tax credit for biodiesel. The biodiesel tax credit expired at the end of 2009. He proposed the new language as a substitute for a bill passed by the House on May 28th, which also included the biodiesel tax credit. Both versions would renew the \$1 credit for 2010, retroactive to January 1st. Two other biodiesel tax breaks would be extended as well, a 10 cent/gallon small agri-biodiesel producer credit and a \$1/gallon tax credit for biodiesel from biomass.

Russia's Deputy Finance Minister Sergey Shatalov said Russia may impose export duty on crude oil produced in East Siberia from July 1st. He said Russia's government is discussing a reduced export duty rate of 45% of the standard duty and that reduced rate may only be calculated on the share of the oil price above \$50/barrel.

API Stocks

Crude – down 4.544 million barrels

Distillate – up 3.002 million barrels

Gasoline – up 1.481 million barrels

Refinery runs – up 0.2% at 86.8%

demand growth estimate for 2010 to 1.5 million bpd from its previous estimate of 1.6 million bpd. It estimates demand growth for 2011 at 1.6 million bpd, unchanged from its previous estimate. World oil demand in 2010 is estimated at 85.51 million bpd, down 0.05% from its previous forecast while demand in 2011 is expected to increase to 87.12 million

bpd, down 0.05% from its previous estimate. Non-OPEC supply is expected to increase by 500,000 bpd in 2010 to 50.86 million bpd, down 0.45% from its previous estimate. In regards to OPEC, the EIA expects OPEC to keep its crude oil production largely unchanged for the remainder of 2010. OPEC production in 2010 is estimated to total 34.72 million bpd, down 0.29% from its previous estimate. OPEC production in 2011 is expected to increase by 1.22 million bpd to 35.94 million bpd, down 0.42% from its previous estimate. The EIA estimates that commercial oil stocks held in OECD stood at 27 billion barrels at the end of the first quarter of 2010, equivalent to about 58 days of forward supply and about 102 million barrels more than the 5 year average for the corresponding time of year. The EIA increased its US petroleum demand estimate for 2010 to 18.92 million bpd, up 0.42% from its previous estimate while demand in 2011 is expected to increase by 190,000 bpd to 19.11 million bpd, unchanged from its previous estimate. Gasoline demand in 2010 is expected to increase by 20,000 bpd to 9.01 million bpd, down 0.22% from its previous estimate while demand in 2011 is expected to increase by 90,000 bpd to 9.10 million bpd, down 0.11% from the previous forecast. Distillate demand in 2010 is expected to increase by 50,000 bpd to 3.68 million bpd, up 1.1% from the previous estimate while demand in 2011 is expected to increase by 50,000 bpd to 3.73 million bpd, up 0.27% from its previous estimate. US crude oil production in 2010 is expected to increase by 70,000 bpd to 5.39 million bpd, down 2.18% from its previous estimate. The EIA said that hurricanes will reduce Gulf production by a cumulative 26 million barrels of oil and 166 billion cubic feet of natural gas in 2010. The average oil production lost during a normal hurricane season is 5.8 million barrels. The EIA also stated that the US moratorium on deep water oil drilling should cut 2011 crude output by about 25 million barrels or 70,000 bpd. This year, the moratorium should reduce crude production about 2.4 million barrels. The EIA estimated that ethanol production, which averaged 700,000 bpd in 2009, will increase to 860,000 bpd in 2010 and 890,000 bpd in 2011. In regards to prices, the EIA estimates that WTI spot prices will average \$79/barrel this year and \$83/barrel in 2011, both about \$3 lower than last month's estimate due to concerns that the economic recovery is moving too slowly. The average gasoline price is estimated at \$2.76/gallon in 2010 and \$2.92/gallon in 2011, down 10 cents and 6 cents, respectively, from its previous estimates. The price of gasoline is expected to average \$2.79/gallon this summer, up 35 cents from the previous summer. Retail diesel prices are expected to average \$2.96/gallon in 2010 and \$3.11/gallon in 2011.

IEA deputy executive director Richard Jones said the IEA is likely to cut its estimates of Gulf of Mexico oil production for 2015 by 100,000-300,000 bpd due to potentially tighter US legislation on deepwater drilling following the BP oil spill.

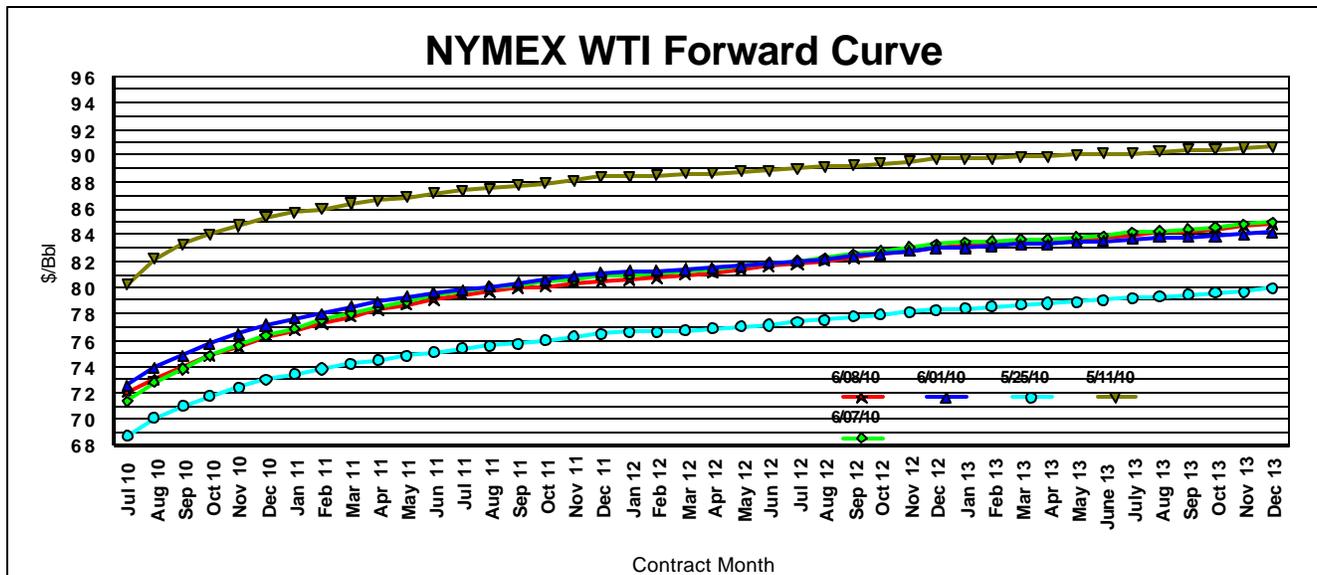
According to a SpendingPulse Report by MasterCard Advisors LLC, US gasoline demand fell by 5.8% to 9.146 million bpd in the week ending June 4th. Demand was 1.7% below a year ago. Demand in the last four weeks was 1.5% above a year ago at 9.41 million bpd. It also reported that the US average retail price of gasoline fell by 4 cents to \$2.71/gallon, the lowest price since March 5th.

The UN Security Council resumed talks on Tuesday ahead of the a vote on a fourth sanctions resolution on Iran's nuclear program as Iran warned it would halt negotiations with major powers if the text is adopted. The council's 15 ambassadors met the second day to discuss a request by Brazil and Turkey to have an open debate on the nuclear standoff with Iran prior to a vote on a US drafted sanctions resolution on Wednesday. The council's five permanent members, Britain, France, China, Russia and the US plus Germany are co-sponsoring the sanctions draft and believe they have the votes to secure its passage.

The head of Russia's nuclear state corporation, Sergei Kiriyenko said Russia and Iran will establish a joint venture to operate Iran's first nuclear plant set to come online this summer.

Refinery News

<p style="text-align: center;">June Calendar Averages CL – \$72.50 HO – \$1.9910 RB – \$2.0115</p>
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Valero Energy Corp said a SCOT unit at its 170,000 bpd McKee, Texas refinery resumed operations following a unit snag. It said there was no material impact to production.

Motiva Enterprises LLC reported that its delayed coking units at its 285,000 bpd Port Arthur, Texas refinery is undergoing maintenance. The repair work is expected to last from June 8-13.

Venezuela's 190,000 bpd Petrocedeno heavy crude upgrader will return to full capacity at the end of June after completing its planned maintenance.

Total has shut several production units at its 223,000 bpd UK Lindsey refinery for planned maintenance work set to last until late July. Its product supply to customers will not be affected by the maintenance outage.

Germany's PCK Schwedt oil refinery has cut its propane and propylene production following technical problems at the plant late last month. The problems occurred at a liquid gas drying section where the company is swapping over defunct equipment.

UAE petrochemical firm Borouge has started operations at units of the phase two expansion of its facility at Ruwais. Its ethane cracker will have a capacity of 1.5 million tons annually. It is expected to take between 12 to 18 months to increase production to full capacity.

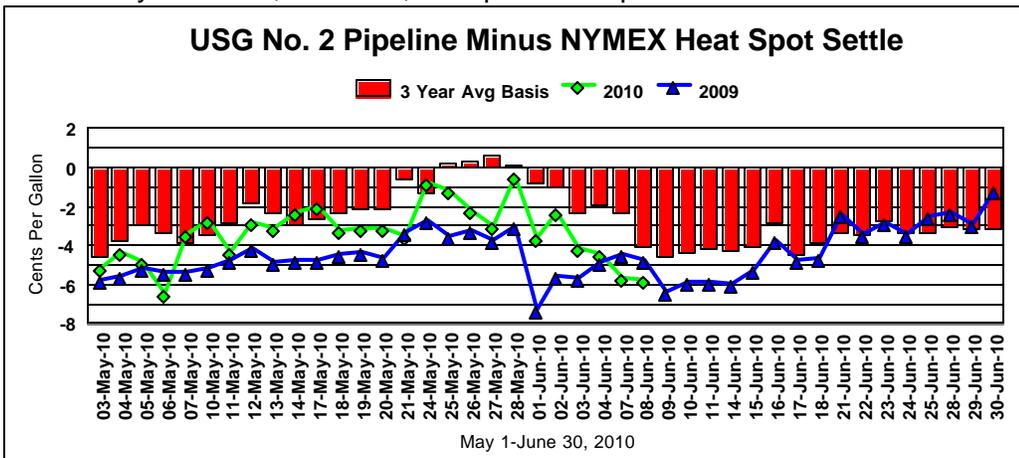
Taiwan's Bureau of Energy reported that Taiwan's total oil product demand in April increased by 5.6% on the year to 4.426 million kiloliters of oil equivalent following a 13% increase in March. Taiwan's gasoline demand increased by 12.1% on the year to 700,802 kiloliters of oil equivalent while diesel demand increased by 20% on the year to 431,735 kiloliters of oil equivalent. Taiwan's crude oil imports in April fell by 18.4% on the year to 4.464 million kiloliters of oil equivalent.

Japan has sold about 300,000 kiloliters or about 1.9 million barrels of Kuwait crude from tanks it rents at the Okinawa Oil Base. The tender is part of a plan by the Trade Ministry to sell several thousand kiloliters of crude from its strategic reserves in the fiscal year ending next March as it aims to diversify the types of petroleum it holds.

Production News

Norway's Statoil said oil and gas production from Norway's Gullfaks C platform could resume within days. The Gullfaks C platform was shut and evacuated on May 20 after changes in well pressure led

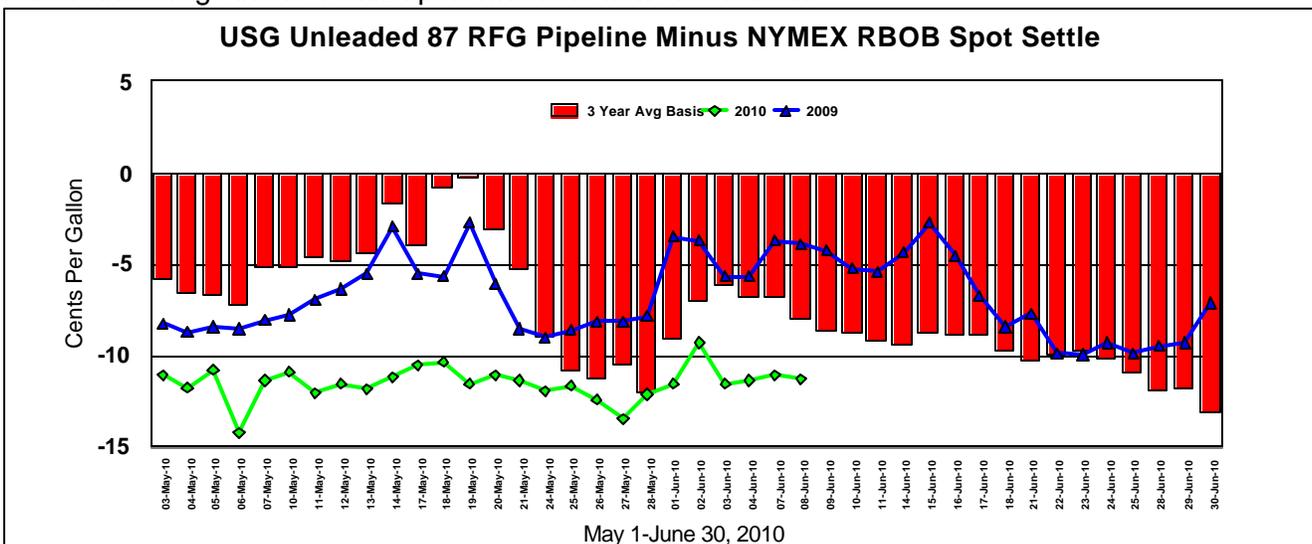
to a fault on one of two valves designed to prevent a blowout. Statoil staff has been trying to resolve the problem by pouring concrete into the well and restore production, which is estimated to be curtailed by about 60,000 to 70,000 bpd of oil equivalent.



ConocoPhillips said oil and gas production at Ekofisk was down due to a planned maintenance outage. It is expected to be shut for a period in June. Ekofisk produces 232,000 bpd and 2.78 billion of standard cubic

meters of gas/year.

A source of Iraq's North Oil Co said a pipeline rupture that halted Iraq's crude oil exports to the Turkish Mediterranean port of Ceyhan was sabotage and could take up to five days to fix. The rupture halted oil flow from Iraq's northern fields to Ceyhan on Sunday. There was about 2.5 million barrels in storage in the Turkish port when the flow was halted.



Norway's Oil and Energy Minister Terje Riis-Johansen said Norway will not open new deepwater areas for drilling until an investigation sheds light on BP's well blowout and oil spill in the Gulf of Mexico. The freeze would not impact current production off Norway but signals a push to slow the expansion of exploration to new offshore areas.

Anadarko Petroleum Corp said it expects to advance its three mega projects, including the Caesar, Tonga complex in the Gulf of Mexico, despite a six month drilling moratorium ordered by the federal government due to the oil spill in the area. The Caesar, Tonga project remains on schedule to deliver first production during the second quarter of 2011. Its two other projects are the Jubilee development in Ghana, expected to have first oil production in late 2010 and El Merk development in Algeria, expected to start production in late 2011.

The Baku-Tbilisi-Ceyhan pipeline is expected to pump 26.02 million barrels or 839,355 bpd of crude oil in July, 1.2 million barrels more than planned for June.

The head of Russia's Transneft said it may support quotas on oil shipments through Turkey's Bosphorus Strait and Dardanelles Strait to fill a pipeline to the Mediterranean. The Samsun-Ceyhan pipeline project will link the Black Sea and the Mediterranean and advance Turkey's plan to turn its southern port of Ceyhan into a regional energy hub.

Increases in oil sands production is expected to outstrip increases in Alberta's processing capacity over the next decade as oil companies proceed slowly in building new facilities to protect profit margins and guard against the return of increasing construction costs. The Energy Resources Conservation Board predicted production of raw bitumen from oil sands would more than double to 3.2 million bpd by 2019 from 1.49 million bpd in 2009. It said output of upgraded synthetic oil is expected to reach 1.3 million bpd in 2019, up 77% in 10 years. It pegged Alberta's total remaining bitumen reserves at 169.9 billion barrels, down from 170.4 billion barrels the year before.

Saudi Aramco cut differentials to the Asian market for all grades for July but increased them in the other markets, particularly in the Mediterranean and Europe. The moves are part of an ongoing trend of Aramco reducing prices for the growing market while increasing those for OECD countries that are trying to reduce consumption.

India's Petroleum Secretary S. Sundareshan said India is likely to take an appropriate decision on fuel price reforms at the next meeting of the panel of ministers, which will debate whether petrol and diesel prices should be raised to international levels. The panel is expected to meet next week. Meanwhile, India's Oil Minister Murli Deora said market driven prices of fuel would not hurt people and will help oil companies that are suffering losses for selling fuel at lower rates.

OPEC's news agency reported that OPEC's basket of crudes fell further to \$69.64/barrel on Monday from \$72.09/barrel on Friday.

Market Commentary

Crude oil experienced a choppy trading session, settling higher on the day. Word from Federal Reserve Chairman, Ben Bernanke that an economic recovery is slowly underway helped to push prices to their first higher close in three trading sessions. Hopes are that these faint signs of an economic recovery will lead to an increase in demand at a time when stock levels are at record highs. There are currently several key factors influencing price activity. Among these factors are China's economic growth and its ability to sustain itself, the European debt crisis and the possibility of it spreading and inventory levels in the U.S; especially stock levels at Cushing, OK, which are at record highs. Looming in the background is the U.S. hurricane season, with forecasters calling for the worst season since Hurricanes Katrina and Rita made their way through the Gulf Coast in 2005. Economic growth will bring investors back into the market, as they believe that demand will increase, taking prices higher. Another note worth mentioning is the correlation that has been forming between crude oil and copper, as both of these industrial sensitive markets react to the global economic situation. Over the past four months and as of today's settlement, the July crude oil contract has lost 15%, while copper has lost 22% during the same time frame. Both copper and crude oil are economically sensitive and rely heavily on a strong economy. With China tightening its spending, imports of these commodities have decreased and instead, China has been relying more on its reserves. Chinese domestic demand remains strong and China has been destocking, which may lead to a shortfall in the future. The decline in Chinese imports may continue to put pressure on these two commodities and when the timing is right we may see China re-enter the market with strong strategic buying in order to replenish its supply. As of now, copper is making a slight comeback and based upon the past, we could see crude oil start to make an up-tick.

The API reported a larger than expected draw in crude stocks of over 4.5 million barrels on the week. It reported a large draw of 4.532 million barrels in Padd 3 alone. The API reported the large draw despite the increase in imports of 728,000 bpd to 9.43 million bpd and the fall in crude runs of 112,000 bpd to 14.758 million bpd on the week. Meanwhile, the API reported a larger than expected build in distillate stocks of 3.002 million barrels on the week, with a build of 1.102 million barrels in Padd 3. It reported the build as apparent demand declined by 9.4% to 4.074 million bpd on the week. Apparent distillate demand basis its three week moving average fell by 3.1% on the week to 4.236 million bpd. It also reported that distillate production increased by 40,000 bpd or 0.9% to 4.362 million bpd. It however showed that imports fell by 81,000 bpd or 36.5% to 141,000 bpd The API reported that gasoline stocks built by 1.481 million barrels on the week. It reported the build as apparent gasoline demand fell by 5.5% to 8.817 million bpd and apparent demand basis its three week moving average fell by 1.1% to 9.24 million bpd on the week. The API however reported that gasoline production fell by 200,000 bpd or 2.2% to 8.99 million bpd and imports fell by 10,000 bpd or 20.4% to 39,000 bpd on the week.

Crude oil July 10 314,261 -29,699 Aug 10 148,721 +13,456 Sept 10 109,405 +4,675 Totals 1,341,671 -8,641 Heating oil July 10 75,036 -2,912 Aug 10 53,687 +3,339 Sept 10 35,828 +2,923 Totals 312,251 +4,314 Gasoline July 10 81,620 -4,879 Aug 10 48,289 +3,879 Sept 10 38,947 +259 Totals 247,345 +357.

Crude Support	Crude Resistance
69.50, 68.63, 67.15, 65.55, 64.20, 63.38, 62.70, 61.61, 60.95	74.75, 75.72, 76.75, 78.81, 79.15, 79.75, 80.07, 81.65
Heat Support	Heat resistance
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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