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## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR JUNE 9, 2011**

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OPEC Secretary General Abdalla Salem el-Badri said forecasts from the Secretariat of OPEC show the group's production would be 2 million bpd short of demand in the third quarter. However not all of OPEC's members agreed with the forecast at the meeting on Wednesday and therefore was unable to reach an agreement to increase production. OPEC's Secretary General said the failure of OPEC to reach a consensus at its meeting was a normal dispute that does not mean its quota system is dead. He said the world oil market is well supplied at present and OPEC's headquarters will monitor the market

#### Market Watch

The US Labor Department said initial unemployment benefits claims unexpectedly increased by 1,000 to a seasonally adjusted 427,000 in the week ending June 4<sup>th</sup>. The prior week's figure was revised to 426,000 from an originally reported 422,000. The four week moving average of new claims fell by 2,750 to 424,000 in the week ending June 4<sup>th</sup>. It reported that the number of continuing unemployment benefit claims fell by 71,000 to 3,676,000 in the week ending May 28<sup>th</sup>. The unemployment rate for workers with unemployment insurance was 2.9% in the week ending May 28<sup>th</sup>, down from 3% a week earlier.

The Commerce Department reported that the US trade deficit in international trade of goods and services fell by 6.7% to \$43.68 billion in April from a downwardly revised \$46.82 billion in March. The March trade gas was originally reported at \$48.18 billion. The report showed that the average price of imported crude oil increased by \$9.42 to \$103.18/barrel in April. The trade deficit with China increased 19.4% to \$21.6 billion in April.

The US Commerce Department said US wholesale inventories and sales slowed in April. The inventories of US wholesalers increased by 0.8% to a seasonally adjusted \$447.21 billion, less than March's 1.3% increase. Sales of wholesalers increased 0.3% to \$393.51 billion following a 3% gain in March.

According to the Federal Reserve, US household wealth increased by \$943 billion in the first quarter, less than half the revised \$2.4 trillion increase in the previous quarter. It said gains from stocks and other investments increased household net worth to \$58.1 trillion.

The Bloomberg Consumer Comfort Index increased to minus 45.9 in the week ending June 5 from the prior week's minus 47.1.

An economist, Robert Shiller said recent housing and employment data suggests the US economy is at a tipping point where a double dip recession is possible and home prices could have much further to fall. He said if unemployment continues to increase in the coming months, it could suggest another recession.

China's Foreign Ministry said the country has urged the US to take action on its debt crisis after a third rating agency issued a warning over a possible US debt default. Ratings agency Fitch warned on Wednesday that the US could lose its sterling credit rating if it failed to increase its debt ceiling to avoid defaulting on loans. It was the third of the three big ratings houses to issue such a warning.

European Central Bank President Jean-Claude Trichet said the ECB is in strong vigilance mode over inflation pressures, indicating an interest rate increase is probably a month away.

Japan's Cabinet Office confirmed that the country's economy fell into a recession after the March earthquake, tsunami and the crisis at a nuclear plant. Revised data showed Japan's GDP fell 0.9% in the first quarter. On an annualized basis, the economy contracted a revised 3.5%.

Ghana's Finance Minister Kwabena Duffuor said the country is hedging 100% of the state share of the country's oil production at \$107/barrel.

**June  
Calendar Averages**  
**CL – \$100.24**  
**HO – \$3.0622**  
**RB – \$2.9855**

closely and alert member countries of any oil shortages. He also stated that an acceptable range for oil prices is higher than \$75 to \$85/barrel because of inflation. Separately, OPEC's Secretary General urged the IEA to stop lobbying OPEC before its meeting to set output policy.

Saudi Arabia's Oil Minister said that Saudi Arabia and three other Gulf Cooperation Council, Kuwait, Qatar and the UAE, are able and willing to supply whatever the market needs. He said the market is not going to see any shortage. He said additional crude will be needed during the third and fourth quarter and added that the capacity to deliver it is there. He said not only will Saudi Arabia and the other three producers deliver 1.5 million bpd but it would deliver whatever the market needs.

According to Oil Movements, OPEC's oil exports, excluding Angola and Ecuador, are expected to increase by 40,000 bpd to 22.87 million bpd in the four weeks ending June 25<sup>th</sup>.

US envoy to the UN's IAEA, Glyn Davies criticized Iran over its plans to triple its uranium enrichment capacity in defiance of multiple UN sanctions. Iran's nuclear chief Fereydoun Abbasi Davani on Wednesday announced Iran's plan to expand its production of 20% enriched uranium and move the work from its main enrichment plant in Natanz to a smaller site at Fordo.

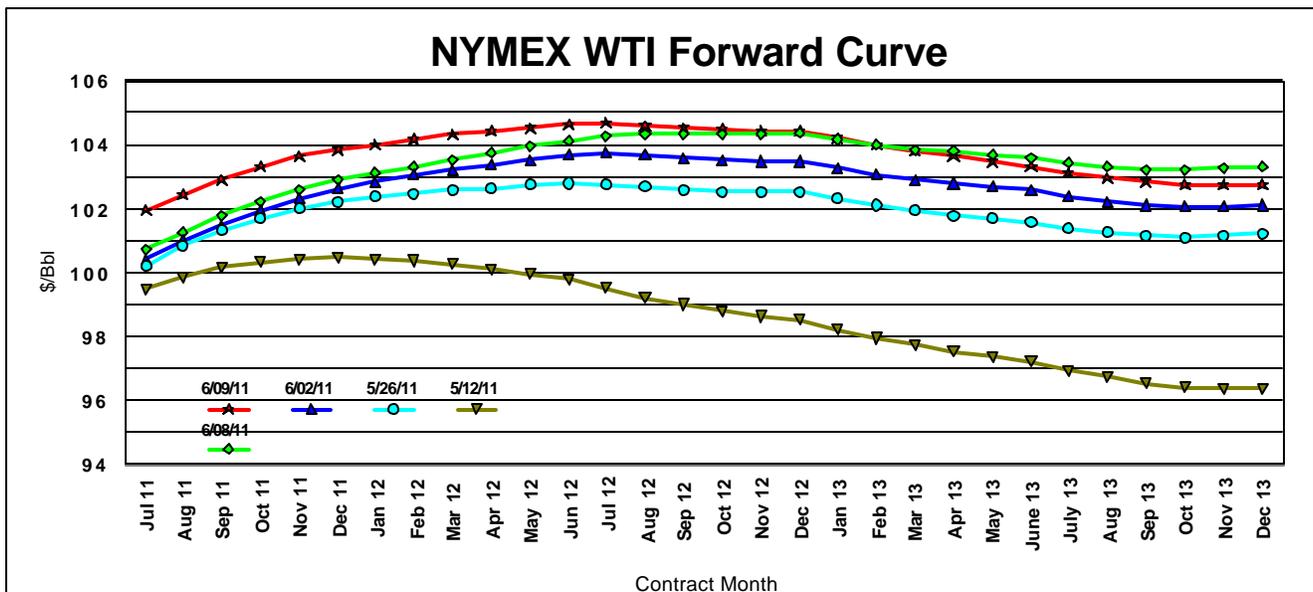
Libya's former UN ambassador said the country's rebels hoped NATO would intensify its operation around Misrata to eventually allow them to move onto the capital, Tripoli.

Azerbaijan's Deputy foreign minister Araz Azimov said the country does not want to wage war over the Armenian-backed breakaway territory of Nagorno-Karabakh, yet it sees no chance of a breakthrough in talks later this month. He said Azerbaijan was not equipping its army for war against Armenia.

New client money flowing into hedge funds fell to its lowest level in two years in May, as the sell off in commodity markets hurt the performance of managers and put off some investors. Gross inflows was 2.03% in the month to June 1<sup>st</sup>, the lowest level since May 2009. Net inflows were positive, at 1.36%, down from 2.29% the previous month.

### **Refinery News**

Plains All American Pipeline LP said its Alberta oil pipeline that ruptured in late April is expected to



remain shut until at least the end of the month. It is aiming to complete a series of digs to check the integrity of the northern leg of the 187,000 bpd Rainbow pipeline by the end of June.

ExxonMobil Corp said repairs have been completed at an unspecified processing unit at its Joliet, Illinois refinery and the unit is back in service.

BP Plc completed the restart of a crude distillation unit, coking unit and reformer unit at its 225,000 bpd Cherry Point refinery in Ferndale, Washington. The refinery resumed normal operations after a planned overhaul on the three units that lasted seven weeks.

Operations at the 100,000 bpd Isab Nord refinery in Sicily was unaffected by a fire at a treatment plant in the Priolo Gargallo energy complex.

PetroChina Co is scheduled to shut its 200,800 bpd Dushanzi refinery in August for a period of 40 days. Maintenance was originally scheduled for July but has been delayed due to high domestic fuel demand.

Japan's Toa Oil Co shut a 65,000 bpd crude distillation unit at its Keihin refinery's Mizue plant.

China has asked CNPC and Sinopec Group to accelerate the expansion of commercial oil storage facilities to secure domestic supply amid fluctuation of international oil prices. CNPC and Sinopec Group are expected to build 3 million tons of new storage facilities in coastal areas. The new storage, mainly to store crude, would be built near existing commercial crude storage facilities in major cities of Shanghai and Tainjin and coastal provinces of Zhenjiang, Fujian and Hebei.

Japan's Kyushu Electric Power Co said it will need to procure another 500,000 kiloliters or 3.1 million barrels equivalent of oil and liquefied natural gas to meet summer power demand if three of its nuclear reactors now undergoing maintenance remain shut.

Gasoline stocks held in independent storage in the Amsterdam-Rotterdam-Antwerp area in the week ending June 9<sup>th</sup> fell by 0.85% on the week and by 40.06% on the year to 585,000 tons. Gasoil stocks increased by 2.46% on the week and by 15.51% on the year to 2.92 million tons while fuel oil stocks increased by 20.92% on the week and by 40.86% on the year to 948,000 tons. Naphtha stocks fell by 55.32% on the week and by 28.81% on the year to 42,000 tons while jet fuel stocks increased by 0.4% on the week but fell by 34.81% on the year to 500,000 tons.

Singapore's International Enterprise reported that the country's residual fuel stocks increased by 363,000 barrels to 20.542 million barrels in the week ending June 9<sup>h</sup>. Singapore's light distillate stocks fell by 902,000 barrels to 9.463 million barrels while middle distillate stocks increased by 2.48 million barrels to 15.132 million barrels on the week.

### **Production News**

The Minister of oil and finance in the Libyan rebel council, Ali Tarhoni said the rebels would soon start producing 100,000 bpd from the eastern fields under their control. He said he hoped the third meeting of the International Contact Group on Thursday would establish a financial mechanism to help the rebels' National Transitional Council.

The July loading program for North Sea Brent crude is scheduled at 4.2 million barrels or 135,484 bpd compared with 120,000 bpd in June.

The July loading program for North Sea Forties crude was scheduled at 348,387 bpd compared with 380,000 bpd in June. It is the smallest loading program since August 2009. Forties crude has been

beset by problems in recent months due to production problems on the Nexen Inc operated Buzzard field. The North Sea Ekofisk crude oil stream is scheduled to load about 331,000 bpd in July, down from about 343,000 bpd in June. A total of 10.25 million barrels are due to load in July. The North Sea Oseberg crude stream is scheduled to load about 155,000 bpd in July, up from 140,000 bpd in June.

Total announced the launch of the Ekofisk South and Eldfisk II project offshore in the southern Norwegian North Sea. The Ekofisk South project would include a new platform and a new subsea facility at the Ekofisk complex. The platform would have a capacity 70,000 bpd of oil equivalent. The new facilities would enable the drilling of 35 production and 8 water injection wells to further develop the Ekofisk field and increase oil recovery. Production is expected to start in early 2014. The Eldfisk II project would include a new platform at the Eldfisk complex and upgrade of the existing facilities on the Eldfisk field. The new platform would also have a capacity of 70,000 bpd of oil equivalent. Production is expected to start in 2015.

Pemex's CEO Juan Jose Suarez said it would reduce its gasoline imports by 8% between 2012 and 2016. He said Mexico will reduce its gasoline imports to 38% of consumption by 2016 as the country refines more oil into fuel. He expects crude oil output to increase between 2012-2016 to reach about 2.8 million bpd by 2016. He said Pemex's top producing crude oil fields have stabilized and should continue at current output levels through careful management. Its Cantarell field can continue production levels of 440,000-450,000 bpd on average through a combination of maintaining well pressure and drilling new wells when needed. MexicoKu-Malob-Zaap field should be able to hold output at between 830,000 and 850,000 bpd.

Continental Resources Inc said the Bakken play in North Dakota and parts of Montana hold a potential 24 billion barrels of oil equivalent in oil, liquids and natural gas.

The Baku-Tbilisi-Ceyhan pipeline is expected to pump 22.8 million barrels of crude oil in July, down 500,000 barrels on the month. The July loadings are expected to total 735,484 bpd compared with 776,667 bpd in June.

Norway's statistical office cut its forecast for 2012 oil and gas investment to 143.2 billion crowns or \$25.92 billion due to fewer investments planned at onshore installations.

China's National Development and Reform Commission said the country would adopt a new oil product pricing mechanism later this year. China's cabinet last week said it would actively push ahead with plans to move toward a more market based fuel pricing system this year to avoid market distortions as well as setting a natural gas pricing mechanism to preserve supply of gas.

India's Prime Minister's economic adviser said the country need to increase prices of petroleum products to achieve the budgeted fiscal deficit target of 4.6% of GDP for the current fiscal year ending March 2012.

### **Market Commentary**

The oil market was pressured early in the session in light of the bearish unemployment report. The Labor Department reported that initial claims of unemployment benefits unexpectedly increased by 1,000 compared with market expectations of a fall of 5,000 claims. The market however quickly bounced off its low as the job number was overshadowed by the fall in the US trade deficit by 6.7% and an increase in consumer confidence to minus 45.9 from the previous week's level of minus 47.1. The market also traded higher amid the uncertainty in the market following OPEC's failure to reach a consensus on increasing output. The oil market traded to a high of \$102.44 late in the morning. However the market later erased some of its gains and settled up \$1.19 at \$101.93. While the market

may continued to trade higher ahead of the weekend, its gains are seen limited amid expectations that OPEC members such as Saudi Arabia will increase their production, despite the OPEC decision to leave their production quotas unchanged. The crude market is seen finding resistance at its high of \$102.44, \$103.39, \$105.16. More distant resistance is seen at \$109.85. Support is seen at \$101.11, its low of \$100.74, \$98.80, \$98.02, \$97.74 and \$96.37.

Crude oil: July 11 269,561 -18,859 Aug 11 160,989 +20,508 Sept 11 136,668 +6,485 Totals 1,534,500 +18,590 Heating oil: July 11 90,157 -4,986 Aug 11 51,583 +3,451 Sept 11 40,408 +1,573 Totals 317,266 +2,604 Rbob: July 11 72,433 -4,635 Aug 11 45,783 +3,856 Sept 11 38,371 +477 Totals 254,735 +3,408.

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
10111	10214	31083	31439	30216	30482
10074	10244	30813	31825	30083	30575
9880	10331	30752	32215	29758	30889
9802	10339	30430	32614	29697	32404
9774	10516	30015	33059	29284	32591
9637	10985	29825		29200	32674
9554	11527	29762		28435	33652
9518		28952		28214	
		28395			

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