

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 10, 2010

In its latest monthly Oil Market Report, the IEA raised its global oil demand growth forecast by 70,000 bpd to 1.68 million bpd from its previous estimate. Total world oil demand this year is estimated to increase to 86.44 million bpd from 84.76 million bpd. The IEA said the revision was made due mainly to stronger than expected demand in the US on further signs of a recovery in economic activity. The IEA reported that OPEC oil production in May fell by 30,000 bpd on the month to 29.02 million bpd as compliance with its output ceiling increased to 58% from 55%. It stated that Venezuela's oil production in May totaled 2.25 million bpd, unchanged on

Market Watch

The US Labor Department reported that the number of initial claims for unemployment benefits fell by 3,000 to a seasonally adjusted 456,000 in the week ending June 5th. The market was expecting claims to fall to 448,000 from the previously reported 453,000. The four week moving average increased by 2,500 to 463,000. It reported that the number of continuing claims in the week ending May 29th fell by 255,000 to 4,462,000 from the preceding week's revised level of 4,717,000. The unemployment rate for workers with unemployment insurance in the week ending May 29th was 3.5%, down 0.2% from the prior week's upwardly revised rate of 3.7%.

The Commerce Department said the US deficit in international trade of goods and services increased 0.6% to \$40.29 billion from a revised \$40.05 billion the previous month. The US trade deficit with China expanded in April to \$19.31 billion from \$16.90 billion the previous month. The US bill for crude oil imports in April increased to \$22.69 billion, the highest amount since October 2008 from \$22.26 billion the previous month. Crude oil import volumes fell slightly to 294.12 million barrels from 299.47 million barrels.

Private weather forecaster Commodity Weather Group increased its 2010 Atlantic hurricane forecast on Thursday by 1 to an estimated 15 named storms. It said of those, nine are forecast to become hurricanes, with four becoming major Category 3 or higher. The forecaster expects most of the season's named storms to occur between mid-August and mid-September. It expects one storm to make its way into the Gulf of Mexico.

The US Agriculture Department said ethanol producers will use more corn to make the renewable fuel in the current marketing year and next year than previously forecast. It raised its forecast for 2009/10 usage to 4.55 billion bushels from last month's estimate of 4.4 billion bushels. It predicted consumption would increase to 4.7 billion bushels next year, up from its previous estimate of 4.6 billion bushels. The USDA also forecast 2.9 billion lbs of soybean oil would be used during 2010/11 to make biodiesel, unchanged from last month and up from 2.2 billion lbs in 2009/10.

China's imports of industrial commodities fell in May despite an increase in the country's overall exports. China's total exports increased 48.5% in May from a year earlier and imports increased 48.3%, giving China a trade surplus of \$19.5 billion, up from \$1.7 billion in April. Crude oil exports fell 16%, copper shipments fell 9% and rubber exports fell 36% on the month.

The ICE said physical delivery against the expired June ICE gas oil futures contract was 85,500 tons or 855 lots.

**June
Calendar Averages**
CL – \$73.11
HO – \$1.9961
RB – \$2.0224

the month. The IEA said world oil refinery runs are expected to increase by 1 million bpd in the third quarter as refiners in the US and China increase their output. Oil refiners are forecast to process 74.4 million bpd between July and September. The IEA also stated that the amount of oil held in floating storage increased by 12 million barrels to 93 million barrels at the end of May due to rising unsold Iranian stocks. It said Iran was holding between 48 and 50 million barrels of crude in late May compared with between 30 and 38 million barrels at the end of April. However the volume of oil products at sea fell to 34 million barrels in late May.

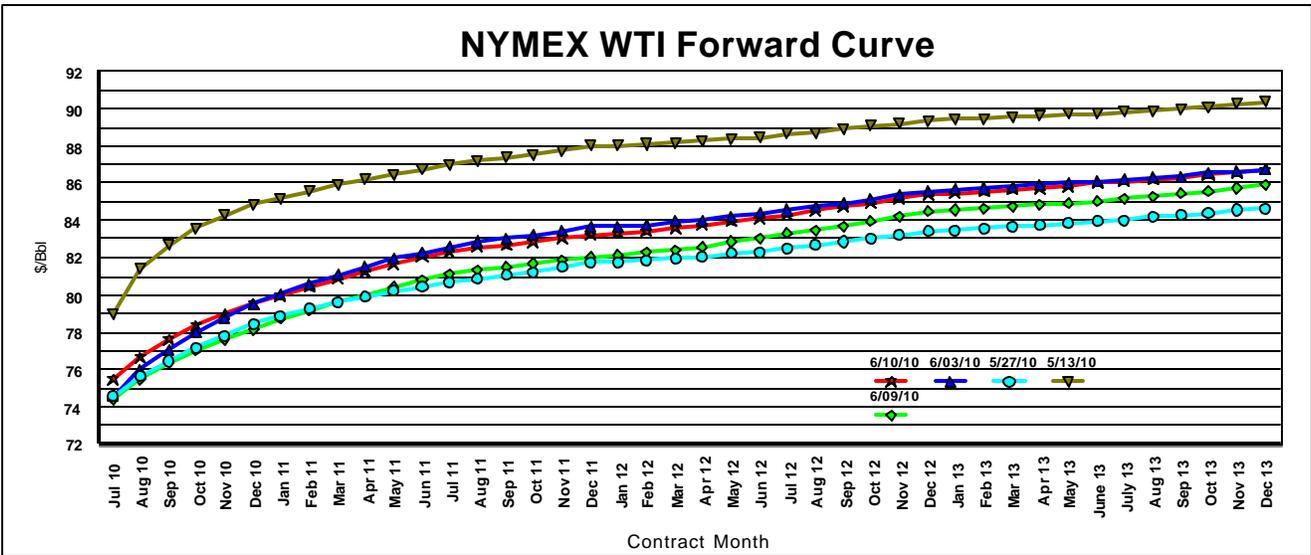
Separately, the head of the IEA's oil industry and markets division, David Fyfe said the oil spill in the Gulf of Mexico had the potential to change the dynamic on the supply side of the equation in the oil market. He said it could restrict future subsea oil development and limit supply. The IEA identified between 100,000 and 300,000 bpd of new projects that could be delayed by 2015 if there was an extended moratorium on new drilling.

According to Genscape, oil inventories at the Cushing, Oklahoma crude oil terminal increased by 111,186 barrels to a record 40 million barrels in the week ending June 8th.

Oil Movements reported that OPEC's oil exports, excluding Angola and Ecuador, are expected to increase by 90,000 bpd to 23.65 million bpd in the four weeks ending June 26th.

BP Plc said it should be able to capture up to 10,000 bpd more of oil leaking in the Gulf of Mexico within a week with the deployment of a second system attached to the well head. The current system that is funneling oil from the lower marine riser package attached to the top of the well to be stored aboard the Discover Enterprise can process up to 18,000 bpd. A second system to collect up to 10,000 bpd from hoses connected to the blowout preventer atop the well and burn it off on board the Q4000 vessel could be in place as early as Monday. BP has captured 73,000 barrels aboard the Discoverer Enterprise in the last six days. Separately, a BP official told US lawmakers he had not heard of any internal company discussions that BP may have to file for bankruptcy because of the growing costs related to the Gulf oil spill.

UK Foreign Secretary William Hague said the European Union should consider further measures against Iran in addition to new UN sanctions. Diplomats later stated that the EU foresees going further than the UN in imposing fresh sanctions on Iran. The matter was discussed by EU ambassadors in Brussels ahead of a meeting of foreign ministers on Monday with a final decision to



be made at a full European summit in the Belgian capital the following Thursday.

The Organization of the Islamic Conference said the new UN sanctions imposed against Iran will not help towards a peaceful settlement to the nuclear dispute with Iran. The sanctions expand an arms embargo and bar Iran from sensitive activities such as uranium mining. They also authorize states to conduct high seas inspections of vessels believed to be ferrying banned items from Iran and add 40 entities to a list of people and groups subject to travel restrictions and financial sanctions.

Iran's envoy to the IAEA, Ali Asghar Soltanieh said the imposition of new sanctions on Iran will only strengthen the country's resolve. He said Iran will never halt its uranium enrichment program and will continue these activities under the supervision of the IAEA. Iran's President Mahmoud Ahmadinejad is scheduled to visit China on Thursday after China supported the new UN Security Council sanctions. China's Foreign Ministry said the goal of the new resolution was to bring Iran back to the negotiating table, not shutting the door to dialogue. Separately, Iranian lawmakers will consider reducing Iran's relations with the IAEA following the approval of a new round of sanctions by the UN Security Council. The Committee on National Security and Foreign Policy will draft legislation to be submitted for a vote.

A specialized economic website, BEDigest said the new UN sanctions imposed against Iran will have little impact on the Iranian economy because they do not affect the trade and energy sectors.

Russia's Foreign Minister Sergei Lavrov said UN sanctions against Iran will not affect Russia's S-300 missile supplies to Iran.

Nigeria's main militant group, the Movement for the Emancipation of the Niger Delta, said its fighters clashed with soldiers in the creeks of the Niger Delta on Thursday. However the military denied any such incident occurred. The clash would be the first such unrest in several months following an amnesty for militants agreed with the government last year.

The US CFTC on Thursday proposed a rule, aimed at high frequency trading that seeks to ensure all market players have equal access to bids and offers from exchanges and other trading platforms. The CFTC proposal specifically addresses high frequency trading, which accounts for at least 40% of all US futures trading. Critics have said high frequency traders, who place their computer systems next to exchange servers, a process known as co-location, have an unfair advantage by getting an early look at buy and sell orders.

Refinery News

Valero Energy Corp said production was not affected by a reformer unit leak at its 144,000 bpd Benicia, California refinery reported on Wednesday

Total's Raffineria di Roma oil refinery is fully operational again following the completion of planned maintenance, which started from the end of April to early June.

India's Reliance Industries shut a fluid catalytic cracking unit at its 580,000 bpd refinery due to a technical snag.

Ultra low sulfur diesel differentials in the US Gulf Coast continued to fall as South American demand for the fuel declined. Chile's ENAP said it has reopened the Bio Bio refinery crude terminal, which has been shut since a February 27th earthquake. ENAP said a tanker carrying about 315,000 barrels of crude unloaded, bringing the Bio Bio crude terminal to capacity.

Preliminary customs data showed that China imported 17.84 million tons or 4.22 million bpd of crude in May, up 4.3% on the year. It is about 18.4% below a record high in April of 21.17 million tons.

China's crude oil imports in the first five months of the year totaled 95.69 million tons, up 29% on the year.

Combined inventories of gasoline, diesel and kerosene held by China's Sinopec Corp and PetroChina in May fell by 0.9% on the month, despite lower domestic sales, as China extended heavy exports of light fuels. Gasoline stocks increased by 4.3% to 5.1 million tons while diesel stocks fell by 3.7% to about 7 million tons.

Singapore's International Enterprise reported that the country's residual fuel stocks built by 1.025 million barrels to 21.669 million barrels in the week ending June 9th. It also reported that the country's light distillate stocks fell by 517,000 barrels to 10.482 million barrels while middle distillate stocks built by 921,000 barrels to 11.795 million barrels on the week.

Tokyo Electric Power Co more than halved its oil consumption in May and cut its reliance on liquefied natural gas as the utility increased its nuclear plant utilization rate. TEPCO's crude oil consumption in May fell to 70,000 kiloliters or 14,000 bpd from 148,000 kl last year. Its fuel oil consumption fell by 71.5% to 103,000 kl.

Gasoline inventories in independent storage in the Amsterdam-Rotterdam-Antwerp area in the week ending June 10th increased by 0.51% on the week and by 42.48% on the year to 976,000 tons. Gas oil stocks increased by 5.82% on the week but fell by 3.77% on the year to 2.528 million tons while fuel oil stocks fell by 7.93% on the week but increased by 16.03% on the year to 673,000 tons. Naphtha stocks increased by 7.27% on the week but fell by 49.57% on the year to 59,000 tons while jet fuel stocks fell by 3.16% on the week but increased by 6.68% on the year to 767,000 tons.

Production News

The output of four major North Sea crude oils for July increased by about 26% on month to 1.21 million bpd, mainly due to the end of planned maintenance. Production of benchmark BFOE crude, a basket of Brent, Forties, Oseberg and Ekofisk, will total 37.65 million barrels or 1.21 million bpd in July compared with 28.95 million barrels or 964,000 bpd in June. Norway's North Sea Ekofisk crude stream is set to load an average of 382,258 bpd in July, up from 118,000 bpd in June.

The North Sea Troll crude system is scheduled to load 7.45 million barrels, up 1.05 million barrels on the month.

Saudi Arabia will supply full contracted volumes of crude oil in July to at least seven Asian term buyers, unchanged on the month. Meanwhile, Saudi Aramco has left its July term crude oil allocations unchanged for European buyers.

Saudi Arabia's Oil Minister Ali al Naimi said he believed the country's current oil production capacity will be comfortable for another five years, if not longer, based on current energy demand trends. The country's current spare production capacity is 4.4 million bpd.

Iraq's oil exports from Basra increased to 1.44 million bpd on Thursday after falling to 960,000 bpd on Wednesday due to a dust storm in the area. Iraq's exports in May totaled 1.9 million bpd, including an average of 1.46 million bpd from Basra and 440,000 bpd from Kirkuk.

Kuwait's newspaper al-Rai reported that Kuwait's oil reserves fell to below 100 billion barrels as daily withdrawals are not being compensated for by an increase in stocks. Kuwait wants to increase its oil capacity to 4 million bpd from 3 million bpd in 2020 and sustain the higher capacity level for 10 years.

Russia's Finance Ministry reported that Russia may cut its oil export duties for July to between \$246 and \$250/ton from \$292/ton after oil prices fell to a yearly low in May. Export duties on light refined products, such as gasoline and gas oil are expected to fall to \$178-\$180/ton, down from the current rate of \$209.10 while export duties on heavy refined products, such as fuel oil are expected to fall to \$96-\$97/ton, down from the current rate of \$112.70/ton.

OPEC's news agency reported that OPEC's basket of crudes increased further to \$71.08/barrel on Wednesday from \$70.11/barrel on Tuesday.

Market Commentary

Crude oil traded above \$76.00, trumping our initial objective of \$75.79. A strong stock market along with lingering strength after yesterday's release of the DOE inventory report, increasing Chinese imports and signs of increasing demand, combined to bolster this market. This has helped to bring investor money back into this market, accelerating the move higher. Technical indicators appear to be pointing toward higher prices, with moving oscillators trending to the upside. This is the first time in five weeks that the July crude oil contract has been able to surpass the high set the previous week. We would like to see crude oil settle above \$75.95 a high set the week of May 17th. Should this occur, it would be a sign that this market has found a temporary floor. Our near-term upside objective is \$78.46.

The December 10/December 11 crude oil spread performed nicely, narrowing as we had hoped it would. Those that have gone long this spread, should use -\$4.05 as a protective stop. Should this spread find support at this level, we would look to add to any length put on.

Crude oil July 10 235,520 -39,437 Aug 10 197,709 +37,089 Sept 10 119,742 +8,971 Totals 1,333,091 +10,783 Heating oil July 10 64,677 -7,648 Aug 10 58,037 +2,353 Sept 10 36,324 -691 Totals 310,738 -3,125 Gasoline July 10 73,310 -5,346 Aug 10 53,801 +3,691 Sept 10 42,565 +1,739 Totals 251,680 +2,267

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
6950	7630	19230	20580	18890	20855
6715	7775	18480	21150	18420	21925
6610	7846	18365	21780	18260	24880
6425	8113	18270	21905	18120	27085
6270	8360	16585	23820	17475	27900

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 written permission is prohibited.