

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 11, 2010

UAE Oil Minister Mohammed al-Hamli said that world oil markets were still oversupplied but not excessively and that the market fundamentals were quite good. He said a price range of \$70-\$80/barrel was acceptable and good for maintaining investments.

Iran's envoy to the UN's IAEA, Ali Asghar Soltanieh said Iran would only consider halting higher grade nuclear enrichment if it first received fuel for a medical reactor from major powers, a condition unlikely to be accepted by the West. He said Iran will not

suspend its nuclear enrichment activities. Iran's Foreign Minister Manouchehr Mottaki said Iran's nuclear program was peaceful and that new UN sanctions imposed against Iran were unjust. Separately, Iran's President Mahmoud Ahmadinejad denounced the UN Security Council's sanctions resolution adopted on Wednesday as "worthless paper." He said Israel was doomed and singled out US President Barack Obama.

Market Watch

The US Commerce Department said retail sales unexpectedly fell in May as consumers cut their spending. Retail sales fell 1.2% compared with an expectation of 0.2% increase. The decline was the highest and first since September 2009, when sales fell 2.2%. Retail sales in April increased 0.6%, up from its previously estimated 0.4% gain. Separately, the Commerce Department reported that US business inventories continued to rise in April in a sign that sales are strong enough for companies to restock their shelves in order to meet demand. Inventories increased 0.4% on the month to a seasonally adjusted \$1.354 trillion. Sales increased in April by 0.6% to \$1.101 trillion. March inventories increased more than previously reported. It was revised upward to 0.7% from 0.4%. March sales were also revised up from 2.3% to 2.5%.

According to Thomson Reuters/University of Michigan's Survey of Consumers, the overall index of consumer sentiment increased to 75.5 from 73.6 at the end of May. US consumer sentiment improved in early June to its strongest level in 2-1/2 years. The surveys' barometer of current economic conditions was 82.9 in early June, the highest since March 2008. The barometer of consumer expectations also increased to 70.7 from 68.8 in late May.

Energy hedge fund BlueGold Capital Management fell 12.5% in May after oil prices suffered their worst loss for the month since December 2008. BlueGold is down 8% year to date.

India's industrial output increased at a stronger than expected pace in April, with manufacturing growth matching its fastest pace in at least 15 years. Manufacturing growth surged 19.4%, matching the growth seen in December 2009, which was the highest since April 1995. India's industrial output in April increased by 17.6% on the year.

According to a document prepared for EU leaders, parts of Iran's oil and gas industry could be targeted by an extra layer of European Union sanctions. The measures would not restrict Iranian oil and gas exports or imports but would seek to cut off investments in the industry as well as the transfer

**June
Calendar Averages**
CL – \$73.18
HO – \$1.9971
RB – \$2.0254

of technology, equipment and services. The EU restrictions are contained in a draft declaration prepared for a summit of EU heads of state and government in Brussels on June 17th. If the declaration is approved, EU leaders will ask their foreign ministers to implement the extra restrictions at a meeting in July.

US Defense Secretary Robert Gates stated that Iran could have enough enriched uranium for a nuclear bomb within three years, perhaps even next year. However he stressed that the projections were only for the production of weapons grade uranium and not the development of weapons or a delivery system.

A Kremlin source said a deal to supply Iran with S-300 air defense missiles is barred by UN sanctions imposed against Iran this week.

US Coast Guard Adm. Thad Allen said BP Plc hopes to increase its daily collection rate to 40,000-50,000 barrels of oil by the end of this month or early July. BP submitted a new plan, which involves replacing its current drilling ship the Discoverer Enterprise with other vessels that are not usually used in the Gulf but can withstand harsher sea conditions and will be able to capture and store more oil as the company waits for the most permanent solution, the completion of drilling on two relief wells. BP captured 15,400 barrels of oil on Friday, down 400 bpd from Thursday.

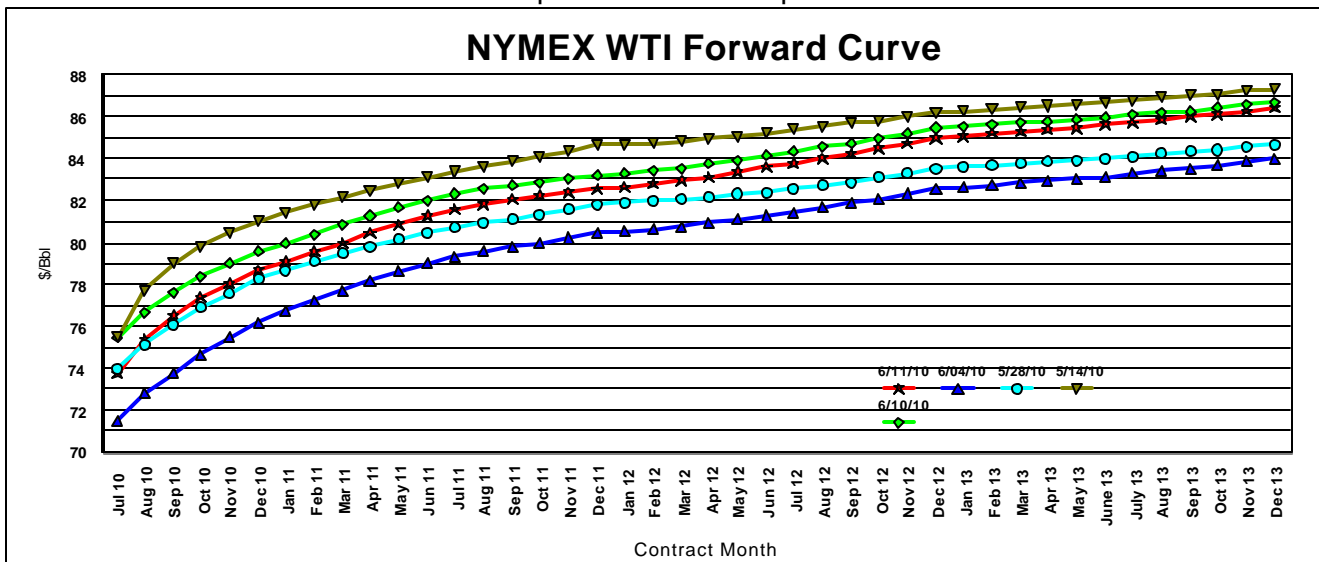
Refinery News

Valero Energy Corp said maintenance work on a reformer and hydrotreater unit at its 195,000 bpd refinery in Paulsboro, NJ is underway. It said it will restart a small crude unit in about a week after completing maintenance on the reformer and hydrotreater. The shutdown of the crude unit will not impact supplies because of ample product inventories and spare refining capacity on the East Coast.

Delek US Holdings Inc reported a brief equipment malfunction at its 60,000 bpd Tyler, Texas refinery due to exceptionally several weather conditions on Thursday. The amine contactor shutdown for several hours.

Tesoro Corp's 120,000 bpd Anacortes, Washington refinery will remain dosed until at least early September following a fire on April 2nd. An explosion occurred when a heat exchanger ruptured on a unit that processes a highly flammable chemical.

China's National Bureau of Statistics reported that China processed about 35.8 million tons or 8.46



million bpd of crude in May, up 14.8% on the year. China produced 13.3 million tons of diesel in May, up 11.6% on the year while gasoline production increased by 2.6% on the year to 6.52 million tons and fuel oil production increased by 8.7% to 1.78 million tons. China's implied oil demand in April increased by 10.6% on the year but fell by 0.4% on the month.

Japan's utilities consumed less oil and liquefied natural gas in May than a year ago, in part due to higher utilization of coal-fired and nuclear plants. The Federation of Electric Power Companies of Japan reported that the utilities cut their total oil consumption by 32.6% to 481,673 kiloliters and its LNG consumption fell by 3.9% to 2.793 million tons.

The volume of middle distillate products stored in tankers off West Africa has increased in recent weeks as traders store fuel in hope that demand will increase. According to ICAP shipping, the total volume of clean petroleum products in floating storage off West Africa stood at 2.07 million tons or 15.69 million barrels on Wednesday, slightly higher than from 2.05 million tons on May 6th.

Production News

Baker Hughes reported that the number of rigs searching for oil and natural gas increased by 21 to 1,527 this week. The number of rigs searching for oil increased by 16 to 561 while the number of rigs searching for natural gas increased by 7 to 954.

Production has restarted at Total SA's North Sea Elgin Franklin gas and oil field after a technical snag interrupted operations on Tuesday.

The Norwegian Petroleum Directorate said Norway's oil production fell to 1.85 million bpd on average in May from 1.89 million bpd in April. Its natural gas liquids and condensate production fell to 335,000 bpd in May from 356,000 bpd in April. It reported that Norway's gas production increased to 9 billion standard cubic meters in May from 8.5 billion meters in April.

Exports of Nigerian Escravos crude oil for loading in June and July will be delayed. The length and circumstances of the delays remain unclear. Some market participants expect cargoes to be deferred for up to 10 days, possibly due to water contamination. There were five cargoes scheduled to load in June and six in July, equating to a monthly volume of between 158,000 bpd and 184,000 bpd, respectively.

The National Iranian Oil Co increased its July official selling price of its Iranian Light crude bound for Northwest Europe by \$1.25 to BWAVE minus \$3.05. It also increased the official selling price of its Iran Heavy by \$1.55 to BWAVE minus \$3.80 and its Forozan crude by \$1.55 to BWAVE minus \$3.75. Iran also increased the price of its Iran Light crude bound for the Mediterranean by \$1.95 to BWAVE minus \$3.95, its Iran Heavy crude by \$2.25 to BWAVE minus \$5.30 and its Forozan crude by \$2.25 to BWAVE minus \$5.25. It however cut the price of its Iran Light crude bound for Asia by 35 cents to the Oman/Dubai average plus 5 cents, its Iran Heavy crude by 15 cents to the Oman/Dubai average minus \$1.65 and its Forozan crude by 15 cents to the Oman/Dubai average minus \$1.60.

Russia's news agency RIA Novosti said Russia is not ready to exclude export duties on oil and gas from a customs union with Belarus and Kazakhstan.

OPEC's news agency reported that OPEC's basket of crudes increased by \$1.13 to \$72.21/barrel on Thursday from \$71.08/barrel on Wednesday.

Market Commentary

For the first time in four sessions the crude oil market settled lower on the day, dragged down by an unexpected decline in U.S. retail sales for the month of May. The July crude oil contract fell 2 percent

as it responded to economic influences, which have been the dominant driving force behind this market. This week had seen a mixed bag of shells when it comes to market stimuli. The IEA revised its demand forecast slightly higher on Thursday, the DOE report indicated that crude oil stocks decreased by 1.8 million barrels, while Genscape indicated stock levels at Cushing, Ok built by 111,186 barrels and remain at record highs. U.S. retail sales fell 1.2 percent, while consumer confidence rose in early June to 75.5, up from 73.6 in May. Chinese inflation rose to a 19-month high in May, while Chinese refiners processed a record quantity of oil last month. These are among several economically tied influences that have affected the market this week. Since trading below \$75.79, the 38% retracement between the range of \$67.15 - \$89.77; the July contract has been unable to sustain strength above it. Coming into next week, we would look for another run at this level. The December 10/December 11 crude oil spread strengthened today, but did not hit our stop out level of -\$4.05. We would remain long this spread, with the same protective stop in place, looking for this spread to strengthen to at least -\$2.97.

The Commitment of Traders report showed that non-commercials in the crude market cut their net long position by 7,418 contracts to 17,457 contracts in the week ending June 8th. The combined futures and options report showed that non-commercial in the crude market increased their net long position by 1,275 to 103,002 contracts on the week. The disaggregated futures and options report showed that producers/merchants increased their net short position by 6,263 contracts to 211,256 contracts while swap dealers increased their net long position by 3,958 to 100,063 contracts. The managed money funds also increased their net long position by 5,637 contracts to 74,410 contracts while other reportable cut their net long position by 4,362 contracts to 28,592 contracts. Meanwhile, the combined futures and option report showed that funds in the heating oil market increased their net long position by 2,457 contracts to 16,109 contracts while funds in the RBOB market increased their net position by 1,312 contracts to 27,789 contracts on the week.

Crude oil July 10 198,103 -37,417 Aug 10 231,460 +33,751 Sept 10 125,999 +6,257 Totals 1,339,118 +6,027 Heating oil July 10 62,404 -2,273 Aug 10 60,686 +2,649 Sept 10 36,071 -163 Totals 314,804 +4,066 Gasoline July 10 68,669 -4,641 Aug 10 57,800 Sept 10 44,106 Totals 254,292 +2,612

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

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