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## ***ENERGY RISK MANAGEMENT***

Howard Rennell, Pat Shigueta,  
& Karen Palladino  
**(212) 624-1132 (888) 885-6100**

**www.e-windham.com**

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### **ENERGY MARKET REPORT FOR JUNE 15, 2011**

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OPEC's Secretary General Abdalla Salem el-Badri brushed aside fears of a repeat of the 2008 oil price spike that contributed to the recession, saying higher spare capacity made producers better prepared to respond to demand. He said that compared with 2008, OPEC now has a much healthier quantity of spare oil capacity that could be tapped if there are further disruptions.

Iran's OPEC Governor Mohammad Ali Khatibi said there was no market demand for Saudi Arabia's output increase nor any need for an extraordinary OPEC meeting.

#### **Market Watch**

The US Labor Department reported that core inflation in May posted its largest gain in nearly three years. The overall Consumer Price Index increased a seasonally adjusted 0.2% in May following a 0.4% increase in April. The core CPI, excluding energy and food, increased by a monthly 0.3% in May following a 0.2% increase in April. The Labor Department reported that on an annual basis, consumer prices increased by 3.6%.

A Federal Reserve report said US industrial production grew in May but the increase was small as automobile manufacturing fell again because of supply problems left by the earthquake in Japan. Overall industrial production increased by 0.1%. Industries used 76.7% of their capacity, the same rate as in April.

The New York Federal Reserve Bank's Empire State index, a measure of factory activity in New York state, fell for the first time since November. The New York Fed's Empire State general business conditions index fell to minus 7.79 from positive 11.88 the month before. New orders index fell to minus 3.61 from 17.19 while shipments fell to minus 8.02 from 25.75.

The European Union's statistics office, Eurostat said industrial production in the Euro zone increased 0.2% month on month for a 5.2% year on year gain. The increase in output appeared to be mainly due to an increase in the output of durable consumer goods, up 1.3% in April against March and the output of capital goods was 0.5% higher.

Economist Robert Shiller said there was a substantial probability the US could fall into a recession again. He said weak global data were warning signs.

Equities, the oil market and the euro fell sharply on Wednesday as turmoil in Greece and indecision among Europe's leaders about helping the country added to fears the euro zone member is moving closer to defaulting. Investors were concerned after euro zone finance ministers failed to agree on how to involve private investors in a second financial rescue for Greece. Senior EU officials said a deal was now unlikely to be reached at a meeting next week and was likely to be delayed until mid-July.

According to a Dow Jones survey, WTI crude is estimated to average \$101/barrel in 2011, unchanged from a previous estimate while the price in 2012 is expected to increase to \$102/barrel, up \$2 from a previous estimate. Meanwhile, Brent crude is estimated to average \$110/barrel in 2011, up 70 cents from a previous estimate. However the price of Brent crude is expected to fall by \$2 to \$108/barrel in 2012.

The head of the Commodity Futures Trading Commission Gary Gensler said his agency would not be able to effectively enforce derivatives markets without funding as the House of Representatives is scheduled to continue debating a bill that includes the agency's budget for next year. House Republicans have proposed a budget of \$172 million for the CFTC in the 12 month period beginning October 1<sup>st</sup>, less than the \$308 million sought by President Barack Obama. The head of the CFTC said it would not introduce its position limits plan anytime soon as the futures regulator hears renewed calls from lawmakers urging it to act over high energy prices.

### DOE Stocks

**Crude** – down 3.406 million barrels  
**Distillate** – down 105,000 barrels  
**Gasoline** – up 573,000 barrels  
**Refinery runs** – down 1.1%, at 86.1%

Saudi Aramco has offered its European term lifters more oil in July. Three European refiners said Saudi Arabia offered to deliver more crude in June and July, with one refiner taking more crude in June and another taking extra volumes for term deliveries in both months.

In the weeks leading up to the OPEC meeting, US and Saudi officials met to discuss an arrangement to exchange high quality crude oil stored in the US SPR for heavier, low-quality oil from Saudi Arabia. The idea involved shipping some of the light low-sulfur or sweet crude from the SPR to European refiners, who needed it after the unrest in Libya cut off shipments of its premium crude grades. In return Saudi Arabia would sell its heavier high-sulfur or sour crude at a discount back to the US. However the plan failed because Saudi Arabia was not willing to subsidize European or US customers by discounting its crude prices below market value.

### Refinery News

ExxonMobil Pipeline Co said the sections of two Louisiana crude pipelines it shut on May 13<sup>th</sup> due to flooding issues returned to operation. It verified the integrity of its two crude pipeline segments on the North Line System north of Baton Rouge and a crude pipeline on the Southwest Line, west of Anchorage and returned the segments back to operation. Delek's 80,000 bpd El Dorado, Arkansas refinery and Alon's 83,000 bpd Krotz Spring, Louisiana refinery was affected due to issues with crude supplies.

TransCanada Corp said it found and fixed the cause of a series of small oil spills in the company's Keystone Pipeline System. Premature wear of pumping station valve fittings and gaskets caused by equipment vibration was the culprit behind several 14 spills during Keystone's first year of operations. It however declared a mid-month curtailment of shipments on the pipeline of 11.5% for the rest of June.

PBF Energy reported the shutdown of an unspecified unit on Tuesday at its 182,000 bpd Delaware City, Delaware refinery.

Valero Energy Corp said unplanned flaring at its 135,000 bpd refinery in Wilmington, California had no material impact on production. Separately, Valero said a gasoline reformer unit resumed operations at its 180,000 bpd Memphis, Tennessee refinery. The unit was restarted on Monday after it was shut late last week.

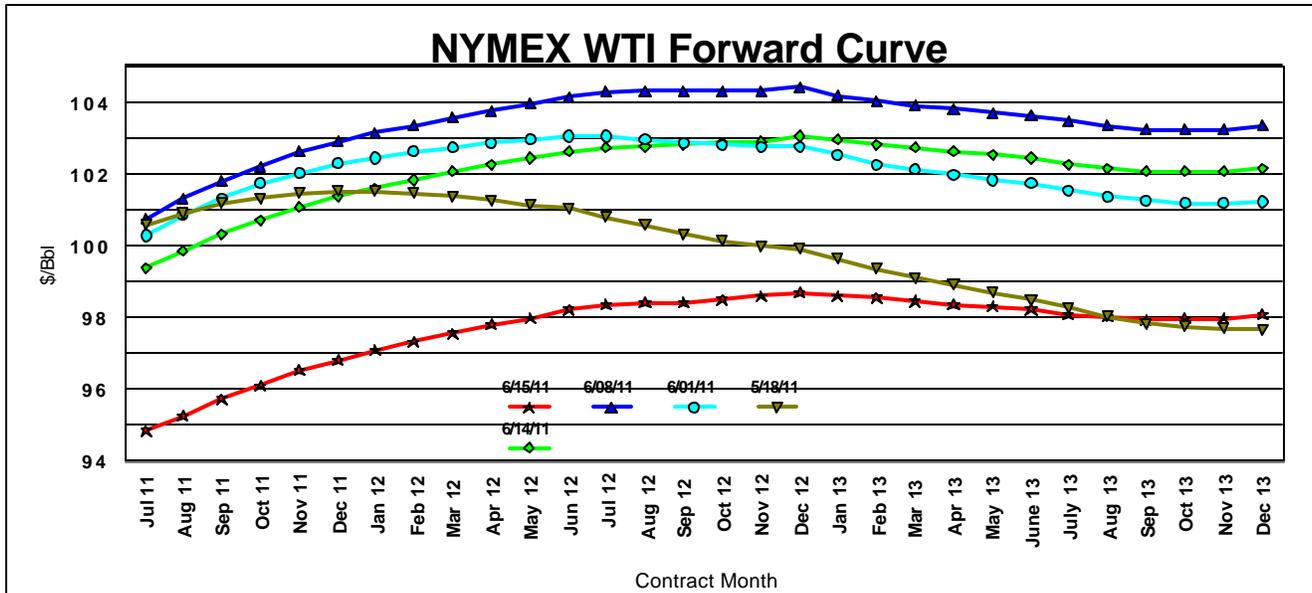
Sunoco Inc said there was no impact on operations due to a fire near its Nederland terminal in Texas. The Sunoco Logistics Nederland Terminal, located on the Sabine-Neches waterway between Beaumont and Port Arthur, Texas, provides storage and distribution services for refiners and other large transporters of crude oil.

Total said it closed its 230,000 bpd Leuna refinery in Germany for maintenance for about three weeks.

Oil product loading is resuming normal operations at Antwerp port following a one day strike on Wednesday, although industrial action is expected to continue on Thursday.

The Petroleum Association of Japan reported that crude oil inventories in the week ending June 11<sup>th</sup> fell by 709,720 kl to 17.217 million kl or 108.3 million barrels. It also reported that gasoline stocks fell by 59,875 kl to 1.946 million kl while gasoil stocks fell by 76,818 kl to 1.764 million kl. Japan's kerosene stocks fell by 80,798 kl to 2.158 million kl while naphtha stocks increased by

**June  
Calendar Averages  
CL – \$99.31  
HO – \$3.0688  
RB – \$2.9910**



230,417 kl to 2.282 million kl and jet fuel stocks increased by 31,037 kl to 928,296 kl. Japan's crude runs increased by 319,629 kl to 3.26 million kl. Its refinery runs increased to 69.9% from 63% in the previous week.

### **Production News**

The Norwegian Petroleum Directorate said Norway's oil production in May fell to 1.541 million bpd of oil equivalent from 1.774 million bpd of oil equivalent. NGL and condensate production fell to 287,000 bpd of oil equivalent in May from 321,000 bpd of oil equivalent in April. Norway's natural gas production fell to 6.3 billion cubic meters in May from 7.4 billion cubic meters in April.

Italy's Eni SpA said there are no major oil or natural gas supply issues for Italy due to the crisis in North Africa. However the head of Eni said the situation would be critical if a second country in addition to Libya were to stop providing supplies.

Iceland's Energy Ministry said it is considering a tender of oil and gas licenses off its coast in the coming months to encourage exploration for hydrocarbons.

Ecuador's Petroecuador exported 10.19 million barrels in May, up 29% on the year. Exports of Oriente crude reached 7.06 million barrels in May while exports of Napo crude amounted to 3.13 million barrels.

Venezuela's PDVSA will receive a \$1.5 billion credit line from the Japan Bank for International Cooperation that will be repaid with oil shipments. Under the loan agreement, which is scheduled to be signed on June 28<sup>th</sup>, Japanese companies may receive up to 3 million barrels of crude annually for five years. Japan will use the shipments to alleviate power generation problems that the Asian country has faced after the earthquake and tsunami in March.

The export duty on Russian crude deliveries are expected to fall to \$445.10/ton starting July 1<sup>st</sup>, down from \$462.10/ton in June. The export duty on gasoline and naphtha are expected to fall to \$400.50/ton starting July 1<sup>st</sup>, down from \$415.90/ton in June.

### **Market Commentary**

The oil market fell sharply, weighed down by weak economic data and strength in the dollar. The market was pressured early in the session as the core inflation in May posted its largest gain in three

years. Crude oil sold off as the dollar extended its gains to the largest increase since September, while the euro fell amid investor's fears over the Greek debt crisis. European ministers failed to reach an agreement on how private holders of Greek debt should share the costs of a new bailout. The spot contract for crude oil posted its lowest level since February 22<sup>nd</sup>, bottoming out at \$94.01. Today's move lower activated technical stops below \$97.00. The soon to expire, July contract, remains within the ascending weekly channel on a spot continuation chart. Given the current economic jitters, we would look for extended moves to the downside and for a test at the weekly channel bottom of \$89.80.

Crude oil: July 11 167,241 -22,617 Aug 11 242,567 +12,078 Sept 11 153,482 -248 Totals 1,584,927 -2,993 Heating oil: July 11 80,120 -393 Aug 11 63,939 +725 Sept 11 44,843 +1,875 Totals 330,872 +4,228 Rbob: July 11 55,734 -4,238 Aug 11 58,798 +3,864 Sept 11 43,139 +647 Totals 262,930 +307.

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
	10340		31325		
9401	10845	27695	32777		33369
9284	11120	26680	33370	26965	35915
8980	11483	27375	33510	26300	36310
8700	11563	23685		25683	
8625	11703	22960		25145	
8500	12126			24240	
8385	14933			23631	
				23414	

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