

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 16, 2010

US President Barack Obama on Tuesday pledged to do all he could to contain the BP oil spill in the Gulf of Mexico and help the Gulf Coast recover in a speech aimed at gaining public support for energy and environmental legislation. He also stated that he would take ideas from Democrats and Republicans on broad energy legislation but said the US could not afford to avoid changes in its energy use.

BP Plc said it was collecting oil and gas from a second containment system attached to the Macondo well's failed blowout preventer. The vessel attached to the new oil collection system will enable BP to capture between 20,000 and 28,000

bpd of oil in total from the leaking well. BP collected and stored about 10,440 barrels of oil from the Deepwater Horizon spill on Tuesday using the lower marine riser package containment cap attached

Market Watch

The US Labor Department said the Producer Price Index in May fell a seasonally adjusted 0.3%. It was the second consecutive decline, following an unrevised 0.1% drop in April. The core PPI, excluding food and energy prices, increased 0.2% in May. In April, the core PPI had also increased by 0.2%. The report showed that for the 12 months ending in May, the PPI increased by 5.3%, slowing down from an annual increase of 5.5% reported in April.

The US Commerce Department reported that US home construction fell in May. Housing starts fell 10% in May to a seasonally adjusted annual rate of 593,000. Permits for new construction also fell. Single family housing starts fell by 17.2% to an annual rate of 468,000, the lowest level in a year. It reported that building permits in May fell 5.9% to an annual rate of 574,000.

The Federal Reserve reported that overall US industrial production in May increased by 1.2%, above expectations for a 1% increase. April's industrial production was revised to a 0.7% gain from 0.8%. US industries operated at 74.7% in May, up from 73.7% in April.

According to Barclays Capital, global spending on oil and gas exploration and production will increase 12% to \$447 billion in 2010, slightly higher than expected at the end of last year. Spending in the US is likely to increase by 18% to \$85 billion while spending in Canada is expected to increase by 28% to \$27 billion.

US producers of soyoil-based biodiesel hoping Congress would revive a \$1/gallon government tax incentive suffered a setback when the Senate rejected a spending bill that contained the biodiesel subsidy. There are 180 biodiesel plants in the US that produced about 450 million gallons in 2009 and much of that production has idled due to the loss of the tax incentive that expired on December 31st.

Russia's Deputy Prime Minister Igor Sechin said the country's budget will gain more than \$11 billion in additional funds in the next three years from the reintroduction of the oil export duty for East Siberian fields. Russia's ministries agreed to reintroduce the export duty for East Siberia oilfields starting July 1st. The duty will be set at 45% of the price in excess of \$50/barrel.

DOE Stocks

Crude – up 1.69 million barrels
Distillate – up 1.798 million barrels
Gasoline – down 636,000 barrels
Refinery runs – down 1.2%, at 87.9%

to the Discoverer Enterprise vessel. BP hopes to have two additional ships in place by the end of June that will increase the total volume of oil it can collect to between 40,000 and 53,000 bpd. Separately, BP Plc has reached a preliminary agreement with the White House to put \$20 billion into an escrow account to pay damage claims from the Gulf of Mexico oil spill over the next three and a half years. BP has

spent \$1.75 billion on the spill response to date. BP said it would withhold its first, second and third quarter dividend payments from shareholders, totaling around \$7.8 billion. President Barack Obama agreed to set aside \$100 million for oil workers who lost jobs because of the six month moratorium his administration imposed on deepwater drilling after the spill. He said the escrow account does not cap BP's liabilities.

The US unveiled new sanctions against Iranian companies over the country's nuclear program. The US sanctioned entities including the Post Bank of Iran, Sepanir Oil and Gas Engineering Co and five front companies for the Islamic Republic of Iran Shipping Lines. It targeted officers of Iran's elite military unit, the Islamic Revolutionary Guard Corps.

Iran's President Mahmoud Ahmadinejad said Iran is ready to resume stalled nuclear talks with major powers if terms Iran will announce soon are met. He made clear that Iran's "nuclear path" would not be negotiable in any such discussions, highlighting Iran's defiance. He also accused his US counterpart, Barack Obama, of meddling in his country after the US President called for global support for Iranians in their fight for greater democracy. Iran's determination to continue its nuclear program was underlined by the head of Iran's Atomic Energy Organization, Ali Akbar Salehi, announcing plans to build four more medical research reactors. Meanwhile, former Iranian President, Mohammad Khatami called for Iranian unity against UN sanctions, which he said were the latest hostilities against Iran. He however criticized government policies, which he said were resulting in the disintegration and empowering of the enemy.

Separately, Iran's conservative-dominated parliament wants the government to proceed with its program to enrich uranium to 20%. The assembly's speaker Ali Larijani said the Iranian parliament demands that the government continues producing 20% enriched uranium and not stop it at all as some countries have not adhered to the nuclear Non-Proliferation Treaty and did not provide fuel for the Tehran research reactor.

Refinery News

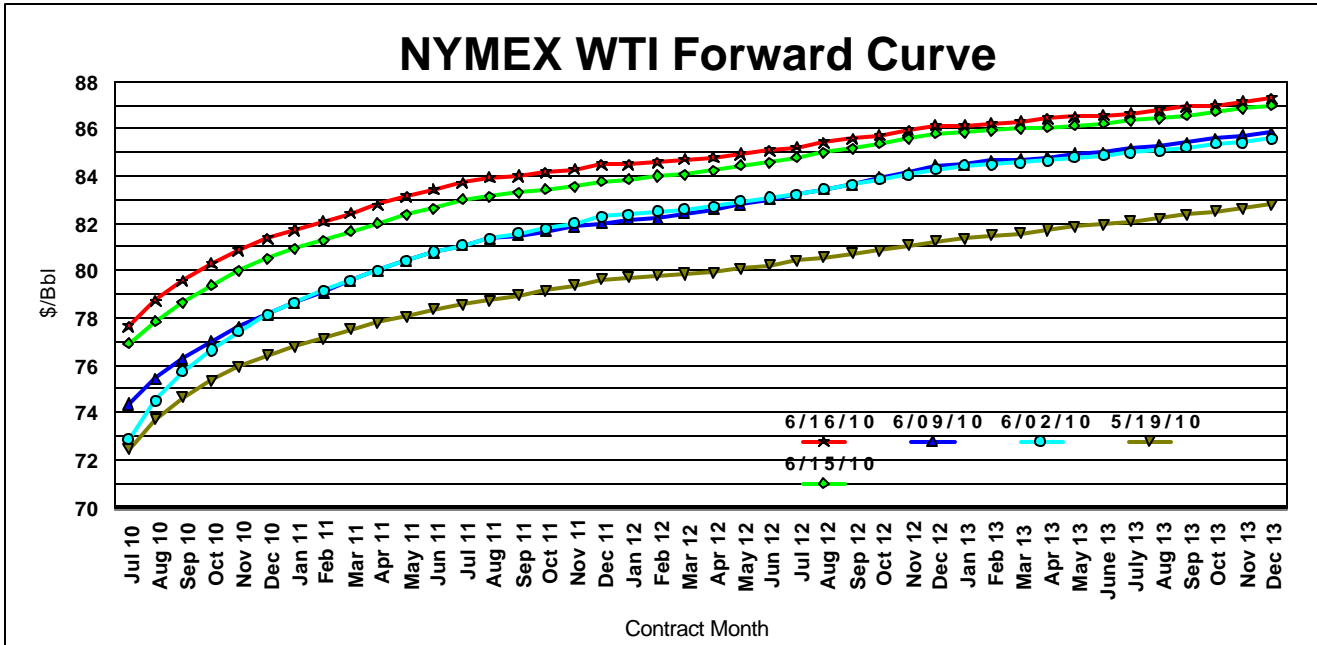
ConocoPhillips cut its gasoline production at its 100,000 bpd Ferndale, Washington refinery following a fire on Tuesday. Wholesale gasoline in Los Angeles increased by 8.75 cents on Wednesday as a result. Gasoline in Los Angeles was 23 cents over the July RBOB gasoline contract.

ExxonMobil Corp reported late Tuesday that it is performing routine maintenance on a unit at its Baytown, Texas complex, which includes its 562,500 bpd refinery. It said the refinery is operating normally.

A fluid catalytic cracking unit at BP-Husky Refining LLC's 125,500 bpd refinery near Toledo, Ohio is expected to resume normal operations Thursday after it was shutdown due to a boiler failure. Separately, BP stated that a construction worker was killed at its Rotterdam refinery after a wall collapsed on him. BP said the accident did not impact the refinery's operations.

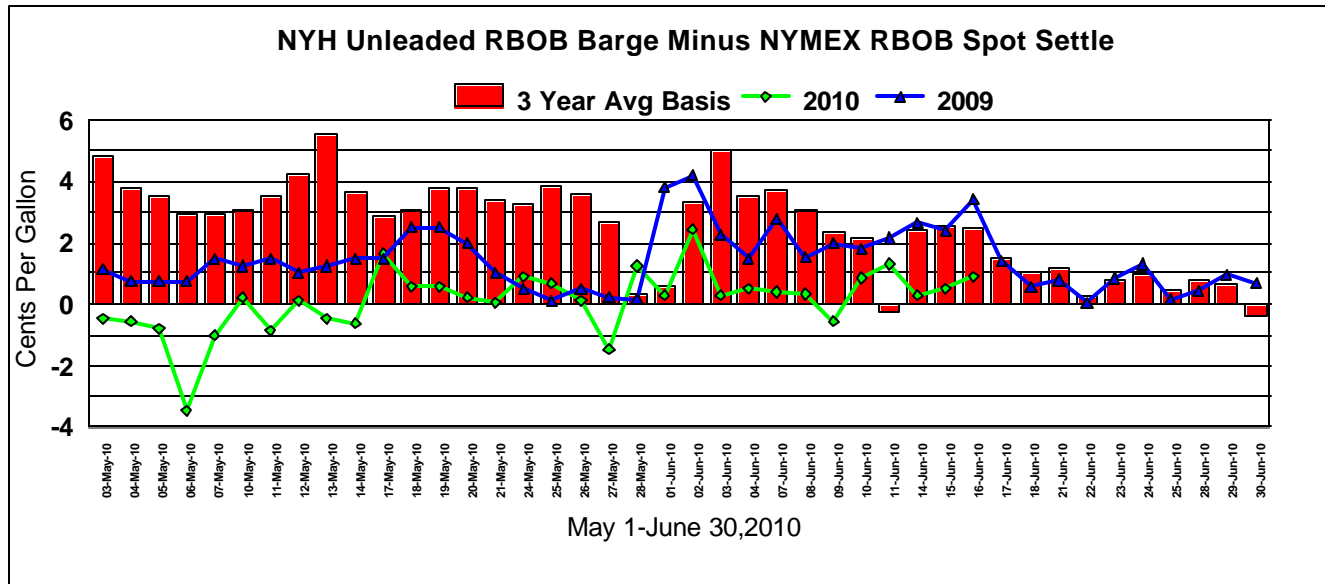
Nigerian National Petroleum Corp said two of Nigeria's refineries in Warri and Kaduna are operating at 60% of capacity. Its refinery in Port Harcourt

**June
Calendar Averages
CL – \$74.03
HO – \$2.0149
RB – \$2.0477**



has yet to resume operations due to a power challenge. A NNPC official said the capacity of the two functioning refineries would increase if the pipelines are properly secured.

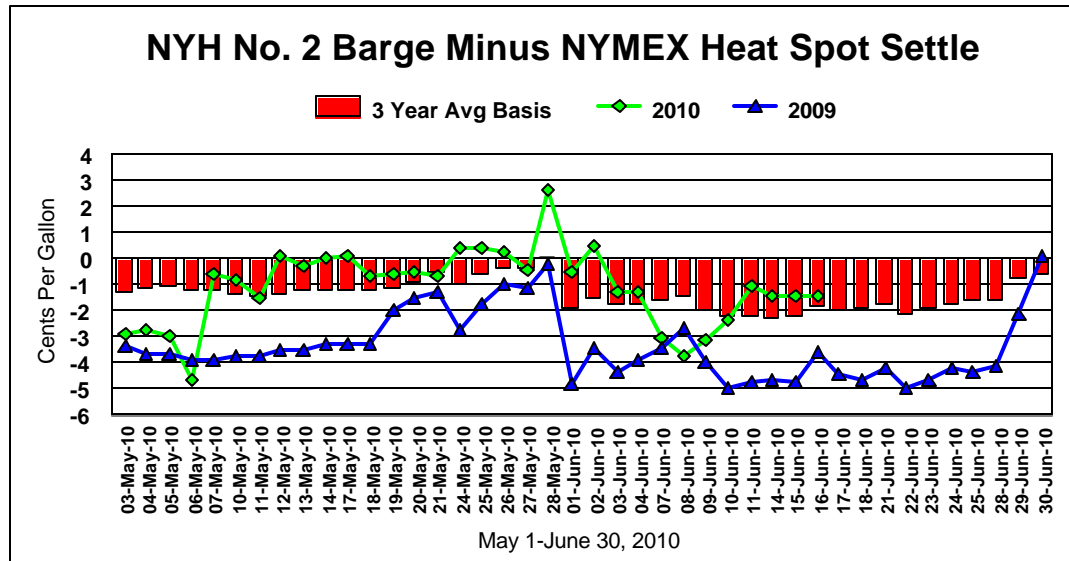
Germany's MWV reported that the country's oil product sales in May totaled 6.22 million tons, up 2.4% on the year. Total oil product sales in the first five months of the year stood at 30.123 million tons, down 11.4% on the year. It reported that heating oil sales increased by 9% to 1.46 million tons while diesel sales increased by 4.7% to 2.65 million tons and fuel oil sales fell by 24.8% to 350,000 tons. It also reported that Germany's gasoline sales in May increased by 1.3% on the year to 1.76 million tons.



The Petroleum Association of Japan reported that the country's crude oil inventories in the week ending June 12th increased by 3.19 million barrels on the week but fell by 520,000 barrels to 106.05 million barrels. Japan's gasoline stocks fell by 380,000 barrels on the week but increased by 870,000 barrels on the year to 15.16 million barrels while kerosene stocks fell by 20,000 barrels on the week and by 2.54 million barrels on the year to 11.28 million barrels and naphtha stocks increased by 1.39 million barrels on the week to 13.26 million barrels. It reported that Japan's crude runs increased by

30,000 bpd on the week but fell by 30,000 bpd on the year to 3.02 million bpd, with Japan's refinery utilization rate increasing by 0.7% on the week and by 0.4% on the year to 63.6%. The PAJ also reported that total oil product sales fell by 11.2% on the week and by 15.4% on the year to 2.36 million bpd. Japan's gasoline sales increased by 6.1% on the week and by 1% on the year to 940,000 bpd while its kerosene sales fell by 18.4% on the week but increased by 12.3% on the year to 160,000 bpd and its gas oil sales increased by 8.5% on the week but fell by 4.9% on the year to 540,000 bpd. Japan's naphtha sales fell by 89.1% on the week and by 83.9% on the year to 50,000 bpd and jet fuel

sales increased by 75.7% on the week but fell by 3.8% on the year to 166,000 bpd.



Indonesia's Pertamina is expected to import 7 million barrels of gasoline in July, the highest level in three months. It also plans to import 5.5 million barrels of

diesel in July. Separately, the company said it has gasoline stocks for 18.9 days and diesel oil stocks for up to 20 days of forward demand.

Production News

A.P. Moller-Maersk said Statoil declared force majeure on a contract on a Maersk oil rig in the Gulf of Mexico. The Maersk Developer rig has been working for Statoil at the Tucker prospect in the Walker Ridge area in the Gulf. An order by the US last month halting 33 exploration rigs in the Gulf in response to the BP oil spill suspended that project and another Statoil exploration project in the Gulf.

Iraq will supply crude to term buyers at an average 10-15% below contract volumes for July, mostly steady with a cut of about 10% for June. Iraq's oil exports in May increased to 1.9 million bpd from 1.767 million bpd in April. The head of Iraq's State Oil Marketing Organization, Falah Alamri said he expects oil exports to increase over the coming months in excess of 1.9 million bpd.

Angola is scheduled to export more crude in August than in July with 1.8 million bpd set to load in 58 cargoes. In July, Angola is scheduled to load an average of 1.7 million bpd.

Kazakhstan's State Statistics Agency reported that the country's crude oil production in May increased by 0.5% on the month and by 10% on the year to 5.546 million tons while its condensate production increased by 0.8% on the month but fell by 12.3% on the year to 980,000 tons. Its natural gas production increased by 0.3% on the month but fell by 14.1% on the year to 1.438 billion cubic meters.

Russian and transit oil exports via Transneft are expected to increase by 1.2% in the third quarter of 2010 to 4.079 million bpd.

Russia's Lukoil Holdings said oil and gas production in Russia will fall after 2011 if the government does not change laws to stimulate exploration. Lukoil's chief executive Vagit Alekperov said investment in geological exploration fell by 65% on the year in 2010 as newly discovered fields are signed away to the state, not the license holder that discovered it, which he said was discouraging exploration.

OPEC's news agency reported that OPEC's basket of crudes fell to \$73.17/barrel on Tuesday from \$73.35/barrel on Monday.

Market Commentary

Today's market activity was product driven as both heating oil and gasoline futures responded to cuts in refining operations. The EIA report indicated that refinery operations decreased by 1.2 percent, with gasoline inventories falling 636,000 barrels to 218.3 million. The 3:2:1 crack spread, the margin spread for turning three barrels of crude oil into two of gasoline and one of heating oil, rose 4.5 percent to \$11.94. As we get deeper into the U.S. summer driving season, product demand should pick up further supporting this spread. The July crude oil contract traded above the \$78.00 level as it gained support from the products. From a technical standpoint, we would look for crude oil to continue higher and for the July contract to work towards the 50 percent retracement level of \$81.13. The December 10/December 11 crude oil spread continues to gain strength, settling 15 cents higher on the day. The overall fundamental aspects of this market are little changed and there is still ample supply around to meet climbing demand. Although we believe that crude oil will continue higher for the time being, we would look for the underlying fundamentals to put a cap on prices and would look for a correction up around the \$85.00 area.

Crude oil July 10 132,009 -11,239 Aug 10 280,652 +2,490 Sept 10 134,685 +1,112 Totals 1,336,533 -8,498 Heating oil July 10 54,139 -3,147 Aug 10 67,025 +1,450 Sept 10 39,542 +869 Totals 325,894 +1,683. Gasoline July 10 54,109 -7,060 Aug 10 59,949 +1,034 Sept 10 45,761 -23 Totals 246,480 -4,953.

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
7775	7846	20580	21200		21925
7630	8113	19230	21780	18890	24880
7547	8360	18480	21905	18420	27085
6950	85.00	18365	23820	18260	27900
6715		18270		18120	

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.