



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JUNE 18, 2010

The IEA's executive director Nobuo Tanaka said if new offshore oil development in the US is delayed by one or two years due to a US government moratorium on new offshore drilling, production could be reduced by up to 300,000 bpd by 2015. He also said an estimated 800,000 to 900,000 bpd of global offshore oil output could be cut by 2015 if there is an extended global moratorium on new drilling similar to that seen in the US Gulf of Mexico. He said the oil spill at BP's Deepwater Horizon drilling rig in the Gulf of Mexico, would raise costs, delay new projects and prompt a thorough review of offshore regulation. He also said there was still downside risks to the world economic recovery,

Market Watch

The US EPA said it will delay until the fall a decision on whether more corn based ethanol than the current 10% limit can be blended into gasoline. It said more testing still needs to be conducted on cars to see how they run on a 15% ethanol blend. Ethanol production this year is expected to reach about 13 billion gallons. If the agency were to approve E15 for all cars on the road, there is a potential increase of 6.5 billion gallons of new ethanol demand, displacing more than 200 million additional barrels of imported oil. In response, ethanol producer Archer Daniels Midland Co said it was disappointed that the EPA has delayed for a second time a ruling on higher blends of ethanol in the US fuel supply.

The US National Hurricane Center reported that a strong tropical wave will move across the eastern Caribbean islands on Friday. However there is a low chance of less than 20% that the system would develop into a tropical cyclone over the next day or two. It said the system showed no signs of a surface circulation and upper level winds are forecast to remain unfavorable for development. Most weather models project the system will cross over Puerto Rico, Hispaniola and either Cuba or the Bahamas before moving on toward southern Florida over the next five days or so.

The UK's Met Office said the North Atlantic is likely to see one of the most active tropical storm seasons on record this year. It expects 20 storms to move across the Atlantic between July and November, threatening disruption to oil and gas installations.

According to a Dow Jones Newswire survey, oil prices are set to rise further this year, due to strong demand from Asia. In addition, the oil spill in the Gulf of Mexico could lead to a fall or delay in the allocation of drilling licenses, resulting a fall in supply. The price of WTI in the third quarter is estimated at \$80/barrel while the price in the fourth quarter is estimated at \$81/barrel. The price for all of 2010 is estimated at \$79.30/barrel, down from a previous estimate of \$80.50, while the price in 2011 is estimated at \$86.50/barrel, down from a previous estimate of \$87/barrel. The price of Brent crude in 2010 is estimated at \$79.30/barrel, down from a previous estimate of \$80/barrel while the price in 2011 is estimated at \$85/barrel, unchanged from the previous estimate.

The head of Russia's Lukoil said world oil prices will likely hold within \$65 to \$70/barrel in the next two years.

The Association of American Railroads reported that in the week ending June 12th, US freight railroads continue to post gains over 2009 levels. US railroads reported 288,973 carloads last week, up 10.5% on the year but down 10.3% from 2008. For the first 23 weeks of 2010, US railroads reported cumulative volume of 6,482,557 carloads, up 7.2% on the year but down 13.5% from 2008.

**June
Calendar Averages
CL – \$74.45
HO – \$2.0325
RB – \$2.0631**

which may prompt the IEA to revise down its global oil demand growth forecast for 2010.

An Iranian deputy oil minister, Hossein Noghrekar-Shirazi said Iran aims to increase its energy output to meet rising demand over the next five years.

He also warned countries against seeking to isolate Iran.

Iran's Supreme National Security Council said that UN sanctions against its nuclear program were illegal and should be revoked.

A US Department of Energy official said the oil spill in the Gulf of Mexico shows there is a need for a change in energy policy. He said the spill provided a clear message that the US should move ahead with the transition to a clean energy future.

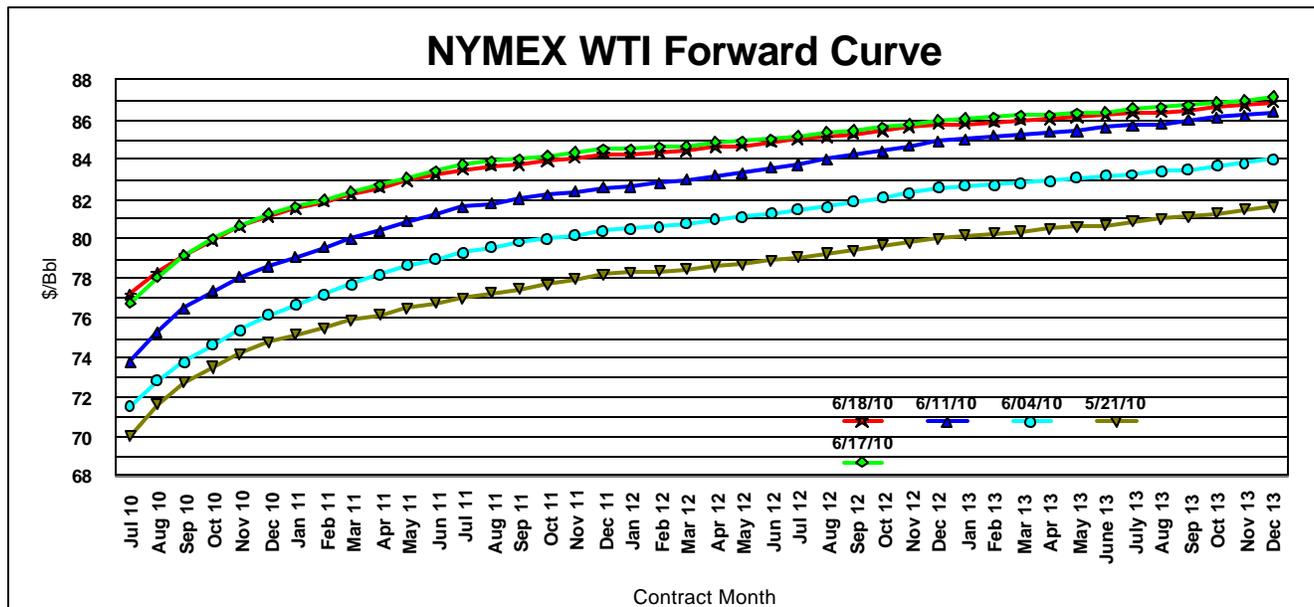
US Coast Guard Admiral Thad Allen said BP captured about 25,000 barrels of oil on Thursday. He said BP is on track to increasing the rate at which they capture oil from the leaking Macondo well to 53,000 bpd by the end of the month. Separately, BP's chief operating officer Doug Suttles said its target date to permanently shutdown a massive oil spill in the Gulf of Mexico is still early August, the date when the first of two relief wells will be completed. He also confirmed BP expects to increase the capacity of systems to collect oil from the spill to more than 53,000 bpd by the end of the month and to between 60,000 and 80,000 bpd by mid-July.

Russia's President Dmitry Medvedev said the oil spill from BP's Macondo well in the Gulf of Mexico should lead to a review of global energy industry cooperation.

According to the API, US demand for crude oil and petroleum products in May increased by 5.3% on the year to 19.131 million bpd. US gasoline demand in May fell 0.4% on the year to 9.05 million bpd, the lowest level for the month since 2003. The API also reported that distillate demand increased by 7.8% on the year to 3.689 million bpd. US refinery utilization stood at 86% of capacity in May. Gasoline production averaged 9.077 million bpd, up 1.6% on the year while distillate production averaged 4.236 million bpd, up 3.7% on the year.

Refinery News

Buckeye Pipeline said it was experiencing delays of about two days on the gasoline pipeline running



from Macungie, Pennsylvania to Albany, New York after an internal cleaning device became lodged in the line. It said the line is operating at 70% of capacity and is expected to remain at that level for several days. Buckeye expects to shut the pipeline down at the end of the current cycle to remove the device. The current cycle is scheduled to end in the middle of next week.

Valero Energy Corp said a coker unit at its 170,000 bpd Benicia, California refinery was ramping up towards planned rates following a second upset late Thursday. The unit continued to operate following an early day upset Thursday that resulted in a release of hydrocarbons due to unknown reasons and caused the evacuation of 20 workers.

ExxonMobil Corp reported flaring at its 562,500 bpd Baytown, Texas refinery on Thursday. It said compressor discharge pressure was reduced and there was no impact on production. It said all its customers' demands were met.

German residential heating oil stocks increased to 50% of capacity as of June 1st from 49% as of May 1st. Last year, German residential heating oil tanks were 63% full at the start of June.

Production News

Baker Hughes reported that the number of rigs searching for oil and natural gas in the US increased by 12 to 1,539 this week. The number of rigs searching for oil increased by 13 to 574 while the number of rigs searching for natural gas fell by 1 to 953 on the week.

Nigeria is scheduled to export 11 cargoes of Qua Iboe crude in August. A provisional loading schedule showed the loading of five Bonny Light cargoes, eight Forcados cargoes, six Bonga cargoes, one Abo cargo, six Brass cargoes, four EA cargoes, two Okono cargoes and three Yoho cargoes.

Mexico's Pemex produced an average of 2.572 million bpd of crude from June 1st to June 13th. Production at the offshore Cantarell fields continued to decline to 501,000 bpd in the June 1-13 period compared with 511,000 bpd in the May 1-30 period. The Ku-Maloob-Zaap fields produced 836,000 bpd on average in the first part of June compared with 850,000 bpd in May. The onshore Chicontepec fields produced 41,000 bpd in the first part of June compared with 42,000 bpd in May.

Myanmar Oil and Gas and North Petro-Chem Corp Limited of China signed a contract for the shared exploration and production of inland oil and gas. Myanmar has reserves of at least 90 trillion cubic feet of gas and 3.2 billion barrels of recoverable crude in 19 onshore and three major offshore fields.

OPEC's news agency reported that OPEC's basket of crudes increased further to \$75.24/barrel on Thursday from \$74.15/barrel on Wednesday.

Market Commentary

The July crude oil contract lingered around the \$77.00 level throughout most of today's session, settling above \$76.99, the 200-day moving average. Supply and global economic concern have been the dominant movers of this market. This is the second weekly gain for prices as they continue to get direction from the equities market. Crude oil continues to lose its primary function as a market hedge, as investors continue to look for alternate venues to put their money into. With the imposition of a drilling moratorium on deep water drilling in the U.S., global output could be affected by as much as 900,000 barrels per day. We may see an impact on this going forward and as a result we still like the December 10/December 11 spreads, which settled in our favor. Crude oil appears to be going through a period of consolidation. When periods of consolidation occur, the market typically has a big move and in this case we would continue to look for more upside potential. Coming into next week we would look for a run at the \$85.00 level.

Crude oil July 10 77,148 -37,959 Aug 10 288,807 +3,335 Sept 10 139,571 +680 Totals 1,296,116 - 30,891 Heating oil July 10 45,853 -5,371 Aug 10 67,272 +79 Sept 10 41,292 +749 Totals 323,436 - 5,140. Gasoline July 10 47,082 -3,554 Aug 10 62,206 +7 Sept 10 49,421 +2,466 Totals 247,250 - 563.

The Commitment of Traders report showed that non-commercials in the crude market increased their net long position by 15,473 contracts to 32,930 contracts in the week ending June 15th. The combined futures and options report showed that non-commercials in the oil market increased their net long position by 11,678 contracts to 114,680 contracts on the week. The funds cut their total short position by 7,497 contracts to 149,738 contracts on the week. The non-commercials have likely reversed their shorts amid the market's move higher in the last few sessions. The disaggregated futures and options report showed that merchants/producers cut their net short position by 1,401 contracts to 209,855 contracts while swap dealers cut their net long position by just 165 contracts to 99,898 contracts. Managed money funds however saw a large increase in net long positions of 23,553 contracts to 97,963 contracts as the total short position was cut by 17,562 to 86,581 contracts on the week. Other reportable cut their long position by 11,875 contracts to 16,717 contracts. Meanwhile non-commercials in the product markets increased their net long positions. Non-commercials in the heating oil market increased their net long position by 1,816 contracts to 17,925 contracts while funds in the RBOB market increased their net long position by 6,627 contracts to 34,416 contracts.

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
	7846	21200	21510		21925
7633	8113	20580	21780	18890	24880
7579	8360	19230	21905	18420	27085
6950	85.00	18480	23820	18260	27900
6715		18365		18120	

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