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## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR JUNE 21, 2010**

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A Kuwaiti oil official said oil prices were likely to remain in the range of \$70 to \$80/barrel for the rest of the year. He said prices could fall to \$65/barrel from time to time due to concern about the global economy and oil demand.

US Defense Secretary Robert Gates said that targeted economic sanctions on Iran had real potential to pressure Iran to halt its nuclear program. He however added that all options, including a military strike, were still on the table in dealing with Iran on the nuclear issue.

#### Market Watch

China pledged over the weekend to loosen its exchange rate policy. It is ending an informal peg of the yuan to the dollar but without a direct revaluation of the currency.

The National Hurricane Center said a tropical wave in the eastern Caribbean Sea could develop into a tropical storm over the next several days. Even though it gave the system only a 20% chance of developing it said environmental conditions appear conducive for gradual development during the next couple of days. Over the next several days, most weather models project the system will cross over Haiti and Cuba before moving into the Gulf of Mexico.

Forecasters at Weather Services International said above normal temperatures are expected across most of the US this summer, with the exception of part of the central and northern Plains. By early July, WSI expects warmer than normal temperatures to spread across most of the western US and persist across the Southeast while relatively cooler temperatures remain across the north-central and northeastern US. By August and September, the heat will become more widespread across the northern US. For July-September, population weighted cooling degree days are expected to be 7% to 8% more than last year and about 10% more than the 1971-2000 mean.

Iran's Oil Ministry said Iran will issue bonds worth 2 billion euros or \$2.48 billion to help finance the development of its petrochemical industry.

Brazil's government said it is no rush to approve BP's \$7 billion purchase of Devon Energy's assets in the country as it assesses the impact of BP's oil spill in the Gulf of Mexico. The review of the deal will also gauge BP's ability to honor contracts as the company may have to create a \$20 billion fund to pay for the spill cleanup. Most of the blocs included in the transfer plan are in exploratory phase, with the exception of the Polvo field in the Santos Basin that is currently producing heavy oil.

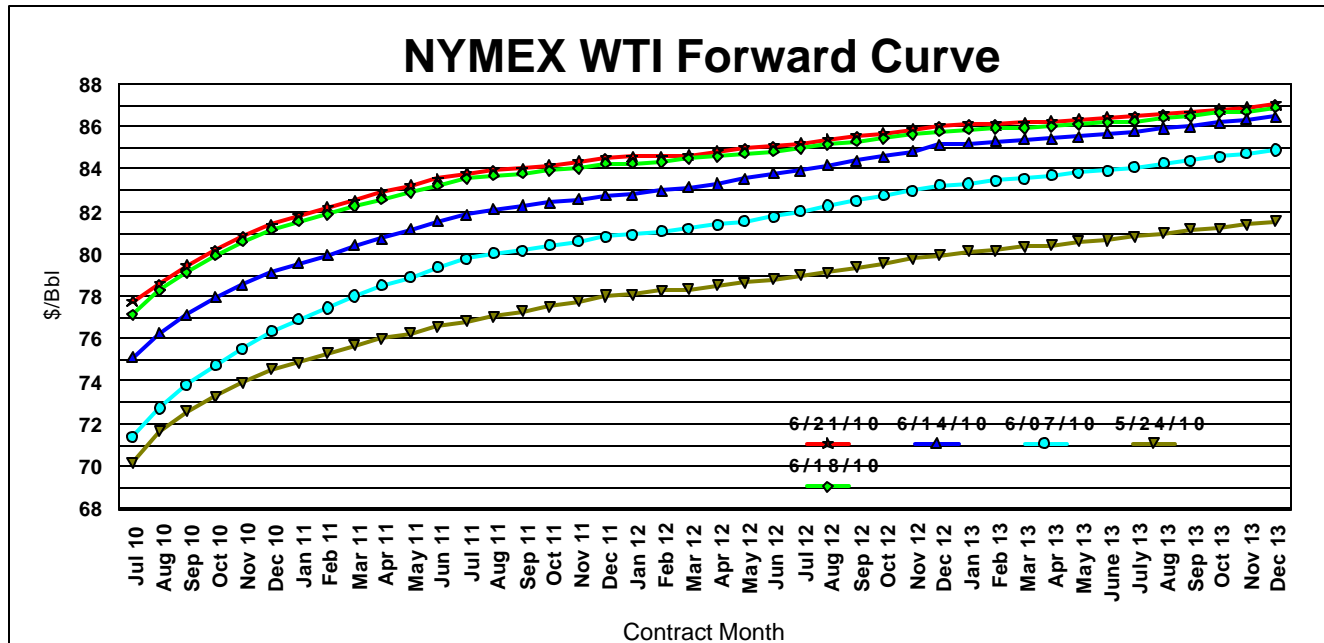
The Baltic Exchange's main sea freight index fell for the 18<sup>th</sup> consecutive day to its lowest level in over three months on Monday. The index fell 3.45% or 93 points to 2,601 points. The Baltic capesize index fell 6.83% on Monday while the Baltic's panama index fell 0.4% on Monday.

US automakers oppose raising the blend of ethanol in gasoline from the current 10%, saying cars will not run as well on higher blends. However Brazil's experience shows their arguments are weak. The EPA and Energy Department are studying the potential impact of an increase of ethanol in gasoline to 15%. The US industry overall is likely to have to invest in reworking their production lines, parts and testing. Brazilian engineers say cars that run on E20-E25 gasoline are in no way inferior to their North American counterparts.

Iran said it barred two inspectors from the UN's IAEA, accusing them of providing false information to the agency and disclosing findings before allowing Iranian officials to review them. Iran said it expected the IAEA would send alternative inspectors instead. Separately, the UN's IAEA rejected Iranian claims that its inspectors had falsely reported information about Iran's nuclear work. The US said Iran's decision to bar two UN inspectors will only deepen international concern about its nuclear program. State Department spokesman Philip Crowley said the US remains focused on implementing and enforcing sanctions while making clear that the diplomatic option remains available to Iran.

**June  
Calendar Averages**  
**CL – \$74.68**  
**HO – \$2.0401**  
**RB – \$2.0684**

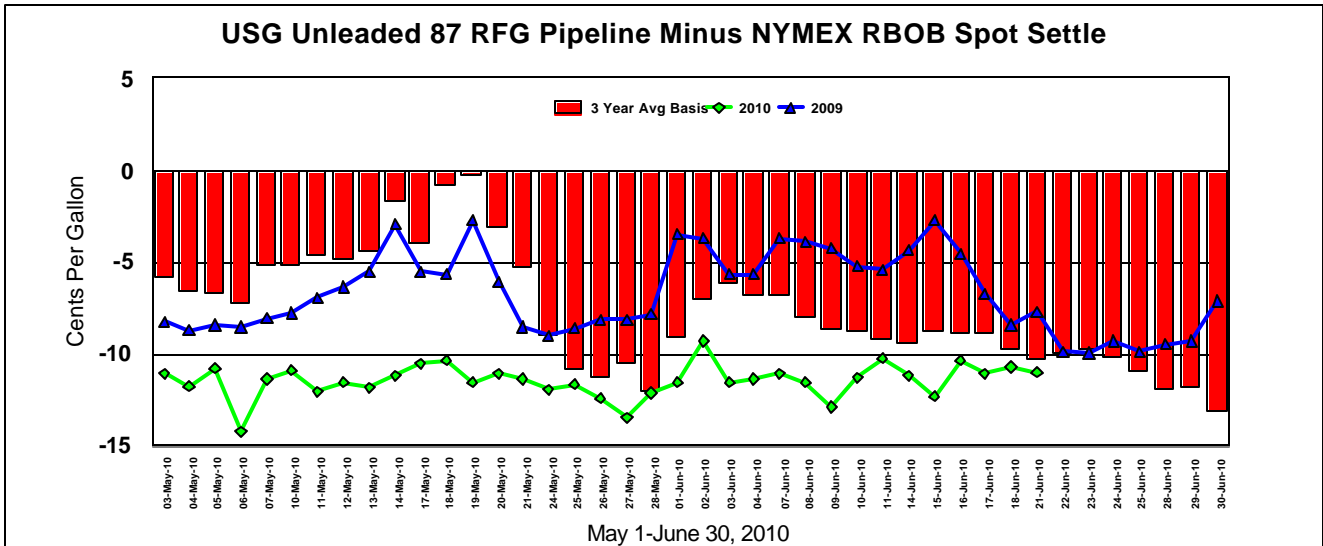
A BP internal document pegged the worse case scenario rate for the Gulf of Mexico oil spill greater than government figures. It estimated the rate at 100,000 bpd compared with government estimates of 60,000 bpd. In a statement BP said on Monday, the 63<sup>rd</sup> day of the spill that the cost of its response had reached \$2 billion and it had paid out \$105 million in damages to those affected. Meanwhile, US Coast Guard Adm. Thad Allen said BP's oil capture rates have slowed in the past two days due to a technical snag and inclement weather. BP said it collected 14,570 bpd on Sunday and flared 8,720 barrels of oil. On Saturday it captured 11,050 bpd of oil and flared 9,990 barrels.



A New Orleans federal judge plans to decide by Wednesday whether the Obama administration's temporary ban on deepwater offshore drilling can continue. The judge aims to rule on a lawsuit brought against the government by oil service companies affected by the ban. The lawsuit filed in early June by Hornbeck Offshore LLC said the US Department of Interior's May 28<sup>th</sup> move to stop offshore drilling for six months after the Gulf of Mexico spill is arbitrary and capricious. The suit was joined by several other small providers of services to the offshore oil industry.

The UN's sanctioned industrial wing of Iran's Revolutionary Guards offered to help end the oil spill in the Gulf of Mexico. It said the disaster had become a shame for the US. The head of the Guards' industrial wing Khatam al-Anbiya, Brigadier General Rostam Qasemi said it can send its experts to end the crisis if asked, saying three decades of sanctions has led the Guards to acquiring the capability to fight such disasters.

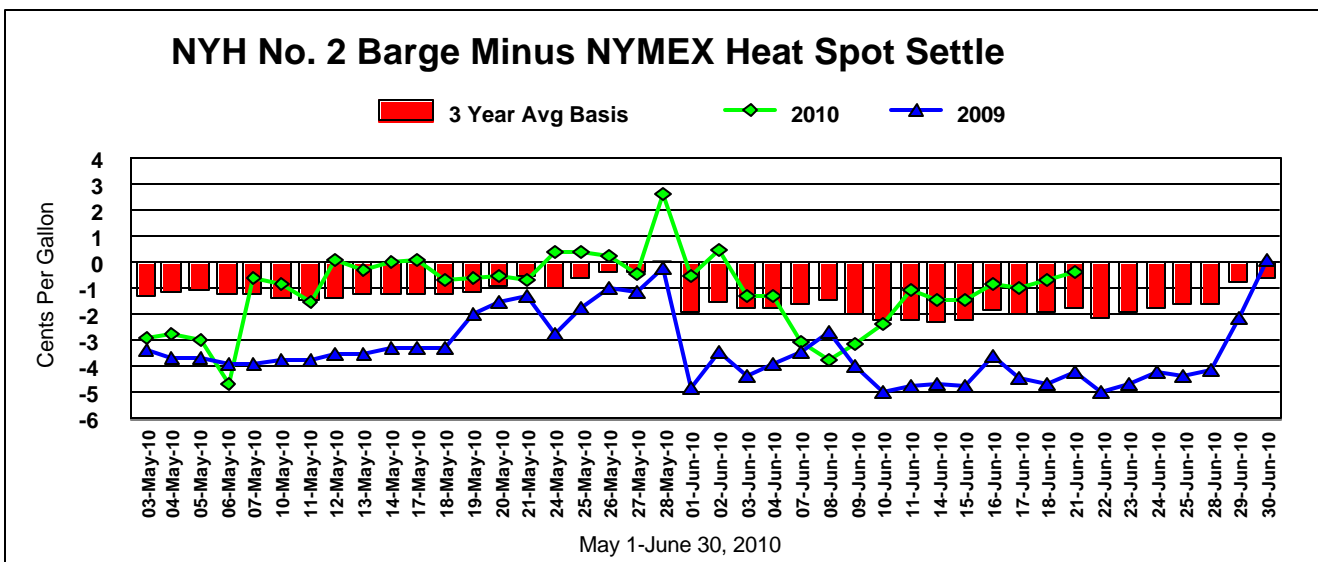
The EIA reported that the US average retail price of diesel increased by 3.3 cents to \$2.961/gallon in the week ending June 21<sup>st</sup>. The EIA also reported that the US average retail price of gasoline increased by 4.2 cents to \$2.743/gallon on the week. It is the largest rise since May 3<sup>rd</sup> and follows a five week decline of 7% or 20.4 cents/gallon.



### Refinery News

Alyeska Pipeline Service Co restarted the Trans Alaska crude oil pipeline late on Sunday after 36 hours of scheduled maintenance. The pipeline will shutdown once again on July 31<sup>st</sup> and August 1<sup>st</sup>, a period that coincides with maintenance work planned by Alaska North Slope oil producers. Daily flow through the pipeline has averaged 651,380 barrels so far in 2010.

Credit Suisse said US refinery margins increased in most regions last week. Gulf Coast margins saw the largest increase in the week ending June 18<sup>th</sup>, up \$1.35/barrel to \$10.59/barrel while Midwest margins increased by \$1.34/barrel to \$12.40/barrel. Margins in the Northeast increased by 80 cents to \$8.64/barrel, margins in the West Coast increased by 62 cents to \$18.08/barrel while margins in the Rocky Mountain region fell by 64 cents to \$17.11/barrel.



Citgo Petroleum Corp reported flaring at its 167,000 bpd Lemont, Illinois refinery on Friday afternoon after an Edison power utility feeder line to equipment was temporarily lost.

Valero Energy Corp started planned maintenance on Sunday in the east plant of its 315,000 bpd Corpus Christi, Texas refinery. It said work on its coker unit is expected to take several days. Separately, Valero restarted a small crude unit at its Paulsboro, NJ refinery over the weekend after completing maintenance on its reformer and hydrotreater unit. Valero Energy also reported that a coker unit at its Benicia, California refinery was taken out of service over the weekend for unplanned maintenance. Wholesale gasoline in the Los Angeles and San Francisco Bay markets rallied on Monday on the coker unit shutdown.

Shell Oil reported that a crude unit was shut at its 145,000 bpd Anacortes, Washington refinery on Sunday.

According to Euroilstock, oil refinery output in Europe fell by 8.7% in May from the same month last year to 11.223 million bpd. It reported that gasoline production in Europe fell by 16.7% on the year to 2.736 million bpd while distillate production fell by 9.2% to 5.511 million bpd and fuel oil output fell by 0.3% to 1.411 million bpd. Capacity utilization fell to 80.96% in May from 80.98% in April.

China's General Administration of Customs reported that the country's diesel and gasoline exports remained strong in May amid strong domestic refinery runs. China's refiners will likely continue to ship large volumes of the fuels overseas as the country's crude runs are expected to reach new highs in the coming months. China's diesel exports increased by 42% on the year to 560,266 tons while its imports totaled 107,141 tons, down 17.7% on the year. China's gasoline exports in May fell about 23% from April to 536,044 tons but still up 72.8% on the year. China also imported 2.11 million tons of fuel oil in May, down 10.4% on the year and 539,527 tons of kerosene, up 7%. Its kerosene exports totaled 557,039 tons in May, up 44% on the year. China's refinery runs in June are set to surpass May's record high of 8.46 million bpd due to the end of maintenance work at two large units. China's customs data also showed that the country's crude imports from Iran in May fell by 74% on the year to 188,000 bpd. Saudi Arabia increased its sales to China by 36% on the year to 3.747 million tons or 882,000 bpd while Angola increased its exports by 56% to 748,000 bpd. China imported nearly 1 million tons from Brazil.

China's implied oil demand in May increased 9.4% on the year to 8.557 million bpd, following eight months of double digit growth.

South Korea's SK Energy, GS Caltex, S-Oil Corp and Hyundai Oilbank imported 76.1 million barrels of crude in May, up about 23%. South Korea's crude runs increased by 10.2% to 70.5 million barrels in May. Domestic oil product demand in May fell by 2.6% to 63.9 million barrels.

### **Production News**

Brazil's Petrobras still expects the Cascade and Chinook fields in the US Gulf of Mexico to start production in the second half of 2010. It said a single well for the first phase of the Cascade-Chinook development plan would be affected by the moratorium on deepwater drilling. Output at Cascade and Chinook is expected to reach 80,000 bpd and is unlikely to surpass the amount until additional drilling is allowed. Petrobras said it was too early to tell whether the drilling moratorium in the US Gulf of Mexico will have an effect on costs at the company.

Nigeria increased the official selling price of its Bonny Light crude and Qua Iboe crude for July loadings by 25 cents to a premium of \$1.40 over the Dated Brent benchmark.

OPEC's news agency reported that OPEC's basket of crudes fell by 11 cents to \$75.13/barrel on Friday from \$75.24/barrel on Thursday. It also reported that the OPEC basket price increased by \$3.14/barrel to \$74.21/barrel in the week ending June 18<sup>th</sup>.

**Market Commentary**

Crude oil rose to a seven week high after China announced that it would end its fixed rate on the Yuan versus the dollar. China is the world's second largest consumer of crude oil and the world's fastest growing consuming country. The ending of the fixed rate on the Yuan would make oil cheaper for Chinese consumers, thereby hopefully boosting imports. Hedge funds continue to increase their net long positions based upon supportive technicals and hopes of increasing demand. Based upon a spot continuation chart, an upward channel has formed. This channel comes into tomorrow's session set between \$76.90 and \$81.68. The August contract, which will become the spot month after tomorrow's July expiration, settled above both the 200-day moving average of \$77.02 and the 62 percent Fibonacci retracement number of \$78.40. We would look for the August contract to experience periods of consolidation while it continues to move within the ascending channel referred to above. The December 10/December 11 spread has so far traded to our satisfaction. As hopes of demand going forward continue to grow, the December 10 contract should continue to gain against the December 11 contract. Our objective for this spread remains at -\$2.73.

Crude oil July 10 51,860 -25,288 Aug 10 295,610 +6,803 Sept 10 143,033 +3,462 Totals 1,283,497 -12,619 Heating oil July 10 43,010 -2,843 Aug 10 67,546 +274 Sept 10 41,608 +316 Totals 320,454 -2,982. Gasoline July 10 45,364 -1,718 Aug 10 64,190 +1,984 Sept 10 50,428 +1,007 Totals 248,137 +887.

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
7846		21200	21510		21925
7702	8113	20580	21780	18890	24880
7633	8360	19230	21905	18420	27085
7579	8500	18480	23820	18260	27900
6950	8579	18365		18120	

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