



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR JUNE 21, 2011**

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The IEA's chief economist Fatih Birol said supply demand fundamentals are still the main driver of the oil market, even though currencies are playing an important role. He said the loss of Libyan output and seasonally high global demand are the main factors

behind recent increases in prices however fluctuations in currency markets and the value of the dollar also play a significant role. He said the Chinese yuan would play a more important role in the oil market as China's consumption continues to increase. The IEA's chief economist also stated that high crude prices may derail growth in China and India, the two countries that helped the global economy overcome the financial crisis. Separately, an IEA official said US oil refiners operating at lower capacity does not indicate manipulation of crude and oil product prices despite the FTC's newly launched investigation into the matter. The FTC said on Monday it would investigate, in part, whether US refiners operating at about 82% of capacity in May, down about 7% on the year, was an attempt to limit petroleum supplies in the market and raise prices.

According to a SpendingPulse report released by MasterCard Advisors LLC, US weekly gasoline demand increased by 0.5% or 50,000 bpd to 9.347 million bpd in the week ending June 17<sup>th</sup>. Gasoline demand increased by 0.4% on the year. The four week demand level of 9.326 million bpd was down 0.4% on the year. The national average retail price of gasoline fell 6 cents to \$3.96/gallon on the week.

#### **API Stocks**

**Crude** – down 81,000 barrels  
**Distillate** – down 541,000 barrels  
**Gasoline** – down 1.516 million barrels  
**Refinery runs** – up 2%, at 86.5%

#### **Market Watch**

Standard & Poor's said the risks of the US losing its triple A rating over the medium term increased as the country faces a political impasse and nears its debt ceiling. The US is expected to exhaust its ability to meet financial obligations by August 2<sup>nd</sup>. The Treasury Department however has stated that the date could shift. Standard & Poor's threatened in April to downgrade the US's AAA credit rating unless the Obama administration and Congress find a way to cut the federal budget deficit within two years.

The National Association of Realtors said US existing home sales in May fell by 3.8% to 4.81 million. The median existing home price fell by 4.6% on the year to \$166,500. It reported that the inventory of unsold US homes stood at 9.3 months supply.

The euro extended its gains on Tuesday as investors expected the Greek government would survive a vote of confidence. Greece's parliament is expected to vote on Prime Minister George Papandreou's cabinet.

The IMF said Spain's policy response last year had helped the economy to rebalance. It said however said that rebalancing of the economy was incomplete and the risks were considerable.

BP Plc forecasts that OPEC will need to increase its oil supply by an additional 1 million bpd in order to balance supply and demand in oil markets. He said the steep discount at which WTI crude futures trade compared to the European

benchmark Brent is a physical problem that will be fixed once an oversupply of oil in the country's storage facility in Cushing, Oklahoma is solved. BP projects the differential between both benchmarks is likely to narrow but that it is hard to predict if that will mean WTI prices would increase or if Brent prices would fall.

**June  
Calendar Averages**  
**CL – \$97.80**  
**HO – \$3.0377**  
**RB – \$2.9727**

The EPA proposed the US would have to use 13.2 billion gallons of mostly corn based ethanol in 2012 as mandated by Congress. However it proposed cutting the amount of cellulosic ethanol that must be produced next year to between 3.45 million and 12.9 million gallons from an original goal of 500 million gallons.

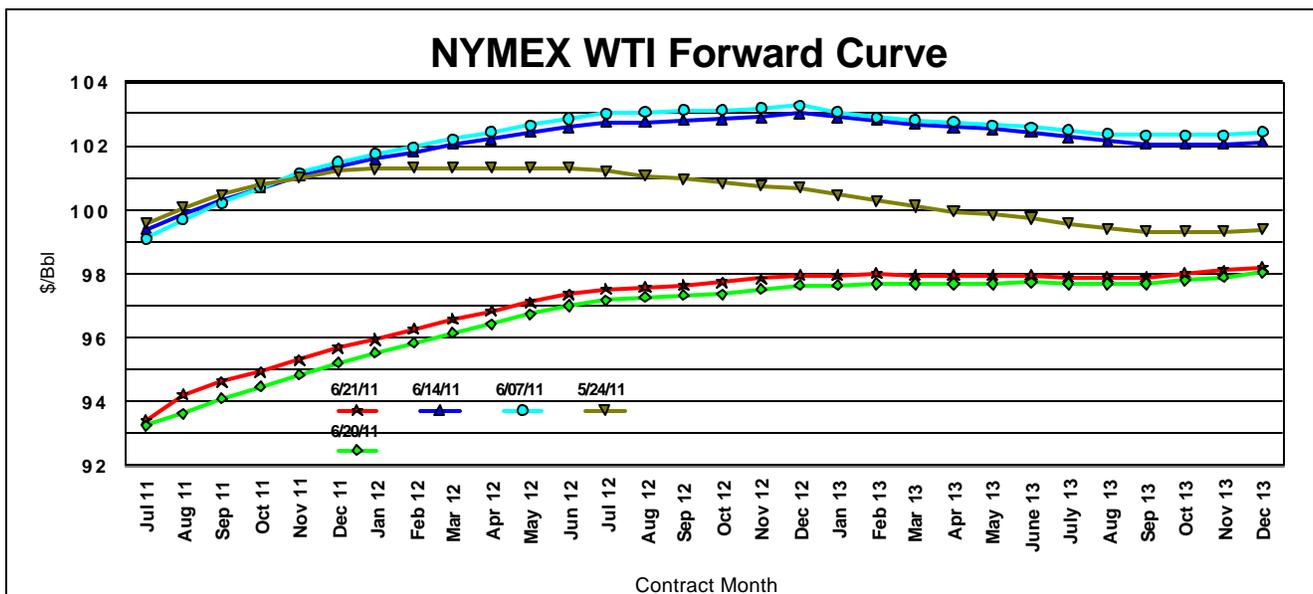
**Refinery News**

Kinder Morgan Energy Partners LP said its Trans mountain pipeline would be apportioned in July. The pipeline will ship only 68% of nominated oil volumes next month. It has accepted 258,265 bpd on the Trans Mountain system, 123,330 bpd for the Puget Sound system and 43,454 bpd for the Westridge dock.

An extended drought in Texas has raised the threat of wildfires disrupting refinery operations in the state. Alon USA Energy has become the first refiner to have a refinery affected by the wildfires. A grass fire caused a power outage at Alon USA Energy Inc's 67,000 bpd Big Spring, Texas refinery. Alon said it would restart the affected units in a short period of time. Meanwhile, Valero Energy Corp, which operates six refineries in the state, with a combined capacity of 1 million bpd, is taking precautions against the chance of fires. ExxonMobil and ConocoPhillips were monitoring local weather conditions but had so far not taken any special precautions against the threat of fire.

BP Plc said it has restored capacity at its 475,000 bpd refinery in Texas City, Texas following a power outage at the end of April, with full rates expected in August. It said due to the impact of the emergency shutdown and restart, it is continuing to have operational issues associated with some downstream units.

ExxonMobil was investigating a source of odor at its Baytown, Texas complex. On Monday, ExxonMobil reported emissions due to a furnace failure at its 234,000 bpd Joliet, Illinois refinery. It will shut down the furnace for repairs.



ConocoPhillips reported flaring at a coker unit at its 247,000 bpd Sweeny, Texas refinery on Monday. A surge in a high pressure gas line caused the problem. Separately, ConocoPhillips said a unit start up Tuesday may have caused emissions at its 120,200 bpd refinery in Rodeo, California. There was maintenance underway at the refinery.

Valero Energy Corp reported emissions at its 144,000 bpd refinery in Benicia, California due to an upset.

Suncor Energy Inc completed scheduled maintenance at one of two oil sands upgraders. It said production at its oil sands operations north of Fort McMurray, Alberta, had returned to normal. The maintenance work on upgrader 2 reduced output at the facility by 215,000 bpd over its duration. The upgrader had been shut since work started on May 1.

Italy's Saras said its 300,000 bpd Sardinia refinery is running as usual on Tuesday, denying rumors of an explosion at the plant.

Statoil's power plant at the Mongstad refinery in Norway will delay a maintenance outage to September 15-17 from August 2-4.

Japan's JX Nippon Oil and Energy Corp said it rescheduled maintenance work to fix a problem at its Kawasaki naphtha cracker. It plans to shut the cracker, with ethylene production capacity of 404,000 tons/year on June 27<sup>th</sup> and restart it on July 1<sup>st</sup>. It was previously scheduled to shutdown on June 18<sup>th</sup> and restart on June 22<sup>nd</sup>.

Repsol plans to cut Spain's dependency on diesel and kerosene imports by 30% with a refinery expansion. The project would increase the Cartagena plant's capacity to refine crude oil to 220,000 bpd from 100,000 bpd. It would produce 4.5 million tons of middle distillates, including diesel and kerosene. The upgraded plant would be able to process up to 76% of cheaper heavy crudes, up from 4% at present, which company officials said would raise Repsol's refining margins by \$2-3/barrel.

According to the General Administration of Customs, China's crude oil imports in May increased by 20.8% to 21.55 million metric tons or 5.1 million bpd. Its liquefied natural gas imports reached 967,922 tons, up 49% on the year. China's gasoline and diesel exports in May continued to fall amid efforts by refiners to meet local summer demand. China's gasoline exports fell by 51% on the year to 262,515 metric tons while gasoline imports totaled 37 tons. China's diesel exports fell by 68.5% to 176,549 tons while its imports totaled 131,479 tons, up 22.7%. China's kerosene exports increased by 46% to 815,082 tons while its imports increased by 9% to 588,490 tons. China also imported 2.29 million tons of fuel oil, up 8.7% on the year.

China's Xinhua News Agency reported that the country's crude oil stocks at the end of May fell by 3.5% on the month due to high refinery runs. Total oil product stocks increased by 2.6%, with diesel stocks increasing by 3% and gasoline stocks increasing by 1%.

### **Production News**

Additional North Sea Forties crude oil cargoes have been delayed in July due to work on offshore oil platforms and infrastructure. At least two Forties cargoes due to load in July have now been delayed, bringing the number of cargo deferrals for the month so far to two and up to five cargoes originally set to load in June and have been delayed into later dates in July. Reduced output at Nexen's Buzzard oilfield has curbed flows along the BP Forties pipeline, leading to delays and cancellations of cargoes loading in May and June. Separately, Nexen said work on third party infrastructure was also affecting Buzzard oilfield production rates.

Kuwait's oil production has slightly increased so far during June to meet incremental seasonal demand both domestically and internationally. Current production is about 2.6 million bpd compared with 2.55 million bpd in May. This is consistent with statements made on Monday by Kuwait's Oil Minister Mohammed Al-Busairi, who said that current crude production is about 2.5 million to 2.7 million bpd. Separately, an official at Kuwait Petroleum Corp said Kuwait may increase its supply by up to 200,000 bpd this summer if there is demand.

A Yemeni official said no date has been set to start repairs on Yemen's Maarib oil pipeline that has been shut since mid-March by an explosion suspected to have been carried out by tribesmen.

Venezuela's Oil Ministry said the country's oil production increased to 2.82 million bpd in April, up from 2.81 million bpd in March. The country's crude oil exports increased nearly 12% to 2.48 million bpd in May from 2.22 million bpd exported in April.

Nigeria is expected to export about 368,000 bpd of Qua Iboe crude in August, up from 215,000 bpd in July. It is set to ship 12 cargoes of Qua Iboe in August. It is also expected to export 255,000 bpd of Bonny Light crude in August.

Mexico's Pemex said its total oil production in June 1-19 period stood at 2.533 million bpd compared with 2.556 million bpd produced in the entire month of May and 2.573 million bpd in April.

Maersk Oil plans to maintain production at its Al Shaheen oil field in Qatar at 300,000 bpd. It said that is the level that it agreed on with the authorities.

BP Plc's chairman Carl-Henric Svanberg said it was hoping to get permission to restart oil production in the US Gulf of Mexico but could not confirm when such approval may be granted. He said the US is dependent on oil from the region following the Deepwater Horizon oil spill last year and is determined to open up the area again.

Ecuador's Ministry of Nonrenewable Natural Resources said the country called a tender for six marginal oil fields in the Amazonas region. It said the fields are Armadillo, Chanague, Charapa, Eno-Ron, Ocano and Singue.

**Market Commentary**

Signs that Greek Prime Minister George Pandreou may win a confidence vote bolstered the Euro, which in turn, weakened the dollar and strengthened crude oil. Heating oil and gasoline fell for the third straight day on anticipation that tomorrow's DOE report will indicate that supplies increased as demand waned. The spread between Brent and WTI narrowed for the second straight day, falling to \$17.65. Given the vagueness in regards to the European sovereign debt, this market should remain choppy. We expect that the current supply/demand scenario will continue to weigh on prices, with the prospect that economic growth will pull prices higher. The near term downside objective remains the weekly channel bottom, which is currently set at \$90.26.

Crude oil: Aug 11 326,404 +30,868 Sept 11 156,747 +826 Oct 11 69,318 +143 Totals 1,532,568 – 5,763 Heating oil: July 11 61,778 –6,078 Aug 11 75,617 +3,230 Sept 11 45,773 +321 Totals 328,039 – 1,396 Rbob: July 11 39,248 –3,686 Aug 11 66,740 +2,555 Sept 11 43,701 0520 Totals 255,656 -420.

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
	10340		31325		
	10845	27695	32777		33369

9250	11120	26680	33370	26965	35915
9026	11483	27375	33510	26300	36310
8950	11563	23685		25683	
8700	11703	22960		25145	
8625	12126			24240	
8500	14933			23631	
8385				23414	

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