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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 22, 2010**

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The chairman of Libya's National Oil Corp, Shokri Ghanem said OPEC does not need to hold a meeting to discuss oil production policy before its scheduled meeting in October.

The IEA expects global oil drilling investment to increase about 10% this year but warned higher drilling costs stemming from US Gulf of Mexico oil spill could stymie new output in the years ahead. The IEA's chief economist, Fatih Birol said oil drilling or upstream spending globally is expected to total \$430 billion this year, reversing the year on year drop in expenditures in 2009. He also said new regulations and increased drilling costs could cut expected crude output in non-OPEC states like the US by up to

#### **Market Watch**

The US National Hurricane Center said the tropical wave in the central Caribbean Sea became less organized by Tuesday afternoon. It said there is now a low 20% chance the wave would develop into a storm over the next day or so. It said environmental conditions are expected to become more conducive for slow development of the system over the next several days as it moves west-northwestward. Most weather models project the system will move west-northwest toward Mexico's Yucatan Peninsula and the southwest Gulf of Mexico over the next several days. Separately, Planalytics said the tropical wave could form into the first named storm and possibly threaten the Gulf of Mexico next week.

The National Association of Realtors said sales of previously owned homes fell by 2.2% in May compared with market expectations of a 5% increase.

Goldman Sachs cut its three month forecast for WTI and Brent crude by more than 9% due to a slower than expected draw in global inventories. It cut its three month forecast for WTI and Brent crude to \$87/barrel and \$88.50/barrel, respectively, down from a previous forecast of \$96 and \$94.50/barrel. However it maintained an optimistic outlook for the world economy and expects oil prices to trade between \$85 and \$95/barrel in the second half of 2010.

The European Commissioners for Energy and Environment are scheduled to meet on July 14 with representatives of the oil and gas industry as well as national surveillance authorities to discuss the possible need to review European rules about platform drilling. It is analyzing existing legislation to see if it needs to be strengthened to prevent an accident similar to the recent one in the Gulf of Mexico.

Turkish government officials said Turkey will meet western oil majors on July 1<sup>st</sup> to discuss options for bypassing Turkey's congested straits, used by shippers to transport oil through the Black Sea to international markets. The officials also said Turkey is assessing the creation of a minimum \$20 billion fund, to be provided by companies that ship oil through the straits, to cover any potential accidents incurred by tankers that travel through the heavily populated straits.

The Australian Customs and Border Protection Service is investigating a complaint by a local firm, Biodiesel Producers Ltd that US biodiesel was being dumped onto the Australian market. The customs agency said it could not make any immediate comment on the case however Biodiesel Producers Ltd said the investigation would serve as a warning to importers to stop dumping US biodiesel or face possible anti-dumping duties.

### API Stocks

**Crude** – up 3.685 million barrels  
**Distillate** – up 1.078 million barrels  
**Gasoline** – up 810,000 barrels  
**Refinery runs** – up 2.1% at 87.2%

900,000 bpd in coming years.

A federal judge in Louisiana ruled against the Obama administration's six month moratorium on deepwater drilling in the wake of the oil spill in the Gulf of Mexico. In response, White House spokesman Robert Gibbs said the US government will immediately appeal a US judge's ruling on

Tuesday. The Interior Department later stated that despite the court ruling to block the deepwater drilling moratorium, it will require companies drilling exploratory and development wells to first meet new safety and environmental rules before they resume operations. The rules require that companies certify that they have working blowout preventers to avoid oil spills, they conduct at least two tests of cement barriers in underwater wells and that they follow new casing installation procedures. Earlier, Transocean Ltd said a six month moratorium on deepwater drilling following the Gulf of Mexico oil spill is not necessary. The company's CEO Steven Newman said he believed there were rules the administration could implement that would allow the industry to continue operating without an arbitrary six month time lag.

A senior Treasury Department official said the US and other countries should explore what economic measures can be taken beyond the recent UN sanctions to force Iran to abandon its nuclear program. He said Iran's leaders will attempt "work arounds" to avoid the impact of the fourth round of sanctions.

Brazil's Foreign Minister Celso Amorim said Iran's willingness to maintain the nuclear fuel swap deal as a base, despite the recent sanctions, was positive.

BP Plc said it reached a new record in the amount of oil captured from the Macondo well by flaring off more oil. On Monday, BP collected a total of 25,830 bpd. It flared 10,270 barrels and captured 15,560 barrels of oil.

According to MasterCard's SpendingPulse report, US weekly retail gasoline demand increased by 0.4% in the week ending June 18<sup>th</sup> to 9.311 million bpd. Year on year, gas demand fell by 2.7%. Over the past four weeks, gasoline demand fell by an average of 0.4% on the year. It reported that the US average retail price of gasoline remained at \$2.70/gallon.

The US Transportation Department said US highway travel in April increased by 1.2% or 3.1 billion miles on the year to 256 billion miles. However the number of miles driven so far this year was down 0.2% or 1.6 billion miles from the same period of 2009.

### Refinery News

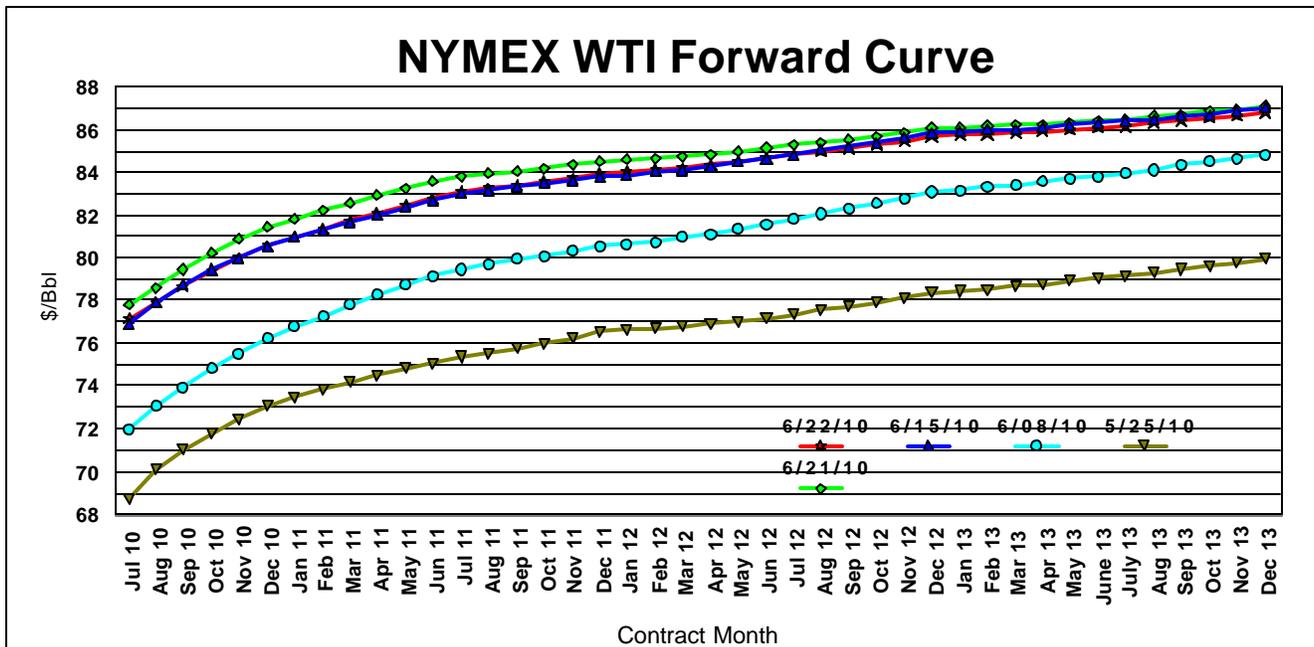
Valero Energy Corp reported the restart of a continuous catalytic cracking unit at its 195,000 bpd Paulsboro, NJ refinery on Monday following planned work. It also said a crude unit and reformer unit was restarted and operating at planned rates.

China's commercial crude oil inventories at the end of May fell by 0.9% on the month to 27.5 million tons or 201.6 million barrels. It was the second fall in inventories this year. China's refined fuel stocks increased by 0.4% in May to 17.6 million tons.

### Production News

Nigeria plans to ship at least 2.5 million bpd of crude in August. The loading plans show Nigeria will export 11 cargoes of Qua Iboe crude, five cargoes of Bonny Light, eight cargoes of Forcados, six cargoes of Bonga, one cargo of Abo, six cargoes of Brass, four cargoes of EA, two cargoes of Okono and three cargoes of Yoho crude.

**June  
Calendar Averages**  
**CL – \$74.84**  
**HO – \$2.0446**  
**RB – \$2.0725**



Angola's Oil Minister Jose Maria Botelho de Vasconcelos said the country's oil production is averaging 1.7 million bpd. He also stated that the country is considering a proposal to participate in Ghana's development of its offshore Jubilee oilfield.

Petrobras expects to begin its pilot production project at the Tupi offshore field in the fourth quarter. The Tupi field is estimated to hold recoverable reserves of between 5 billion and 8 billion barrels of oil equivalent.

Kazakhstan's Finance Minister Bolat Zhamishev said the country is considering the introduction of a \$20/ton export duty on crude oil.

OPEC's news agency reported that OPEC's basket of crudes increased to \$75.96/barrel on Monday from \$75.13/barrel on Friday.

### **Market Commentary**

The oil market erased Monday's gains, with the expiring July contract ending in negative territory. The July crude contract sold off to a low of \$76.53 in early morning trading on Globex. The market retraced some of its losses early in the session before it sold off amid the lack of supportive economic news. The National Association of Realtors said sales of previously owned homes fell by 2.2% in May compared with market expectations of a 5% increase. Also, a survey of national chain store sales showed a 0.4% decline in sales in early June while the Federal Reserve Bank of Richmond reported that its index of manufacturing activity in the central Atlantic region slowed to 23 from 26 in May. The crude market later traded to its high of \$78.10 only to see it sell off once again ahead of its expiration at the close. It settled down 61 cents at \$77.85. The August crude contract, which posted a range from \$77.33 to \$78.90, settled down 76 cents at \$77.85, still above the 200 day moving average of \$77.06. The product markets also settled in negative territory, with the heating oil market settling sharply lower at \$2.1129, down 3.30 cents and the RBOB market settling down 93 points at \$2.1335. The markets on Wednesday will look to the DOE's weekly petroleum stock report for further direction after retracing some their previous gains during today's session. The markets are seen finding some support amid the expectations of draws in crude stocks of 800,000 barrel, a build in distillate stocks of 1.3 million barrels and a small draw in gasoline stocks of just 100,000 barrels. The crude market is

seen finding support at \$77.58, \$77.33, \$76.86, \$76.50, its 38% retracement off a low of \$70.93 and a high of \$79.94, \$75.71 and \$75.44, its 50% retracement level.

The API reported a larger than expected build in crude stocks of 3.685 million barrels on the week, with a large build of 4.963 million barrels in Padd 3 alone. It reported the build in crude stocks as imports increased by 1.275 million bpd to 9.983 million bpd. It however reported that crude runs increased by 281,000 bpd to 14.859 million bpd. The API reported a build in distillate stocks of 1.078 million barrels on the week. It reported a build of 1.343 million barrels in Padd 1 alone. It reported the build in stocks despite the slight increase in apparent demand of 0.4% to 4.309 million bpd and a fall in imports of 137,000 bpd or 59.8% to 92,000 bpd on the week. Distillate production increased just slightly by 3,000 bpd to 4.371 million bpd. Meanwhile gasoline stocks built by 810,000 barrels, with a build of 909,000 reported in Padd 1. The API also reported the build in stocks despite a small increase in apparent demand of 0.6% to 9.315 million bpd and an increase in gasoline production of 40,000 bpd to 9.355 million bpd. Gasoline imports however fell by 57,000 bpd or 42.9% to 76,000 bpd.

Crude oil July 10 23,357 -28,503 Aug 10 310,548 +14,938 Sept 10 143,921 +888 Totals 1,271,814 - 11,683 Heating oil July 10 39,105 -3,905 Aug 10 69,895 +2,349 Sept 10 42,001 +393 Totals 320,881 +427. Gasoline July 10 40,143 -5,221 Aug 10 66,870 +2,680 Sept 10 51,399 +971 Totals 246,174 - 1,963.

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
77.58	78.20	21075	21300	21223	21415
77.33	78.55	20580	21475	20986	21520
76.86	78.90	19230	21725	20605	21555
75.71	79.94	18480	21907	20230	21930
74.74	81.30	18365	22155	19609	22355