



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR JUNE 22, 2011**

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A Saudi official said a release of oil stocks by the IEA would be aimed at controlling rising crude prices rather than filling a supply gap. He said there is no shortage in the market. The agency is considering a release of emergency reserves if Saudi Arabia cannot produce enough to fill the gap left by the stoppage of Libyan supplies.

#### **Market Watch**

Federal Reserve Chairman Ben Bernanke said the central bank has several tools at its disposal to further stimulate the economy, though he acknowledged that the methods remain untested. He said the Fed could make more securities purchases, cut the interest on excess reserves it pay to banks, give guidance on its balance sheet or set a fixed time for its extended period.

Federal Reserve officials lowered their forecasts for economic growth and predicted underlying inflation would come in higher than believed this year, as the bank's policy setting committee cautioned that the recovery was experiencing what is likely a temporary loss in momentum. The change in its economic outlook follows a decision by the Federal Open Market Committee to keep interest rates at ultralow levels, while confirming that the \$600 billion program to buy long-dated Treasury bonds would end on schedule this month. The Fed revised down its estimate of 2011 growth to a range of 2.7% to 2.9% from a previous estimate of 3.1% to 3.3%. The 2012 forecast was cut to between 3.3% and 3.7% from 3.5% to 4.2%.

Pension funds are beginning to question their investments in commodities after accusations that massive flows into the sector have distorted the markets. They are concerned following high profile campaigns by pressure groups and French President Nicolas Sarkozy linking rising grain and fuel prices to an increase in poverty in developing countries. France is expected to press for new regulations on commodity speculation at a summit of agriculture ministers of the G20 group of top economies this week.

The European Union's statistics office Eurostat said Euro zone industrial new orders increased less than expected in April by 0.7% on the month for an 8.6% year on year increase.

Iran's Oil Minister Mohammad Aliabadi said Iran will confront international oil price increases. He said it has the necessary tools to control the crude production and to stabilize the oil price.

The number of tankers booked this month out of the Middle East increased by almost 12% since April due to Saudi Arabia increasing its output of crude oil. According to shipbrokers, 127 Very Large Crude Carriers were booked out of the Middle East for June. In April, only 114 vessels were fixed. Of the 127 vessels fixed, 81% of the vessels were bound for Asia, while the remainder were bound for the US and Europe. Separately, Frontline said very few tankers are currently used to store oil.

#### **DOE Stocks**

**Crude** – down 1.711 million barrels  
**Distillate** – up 1.173 million barrels  
**Gasoline** – down 464,000 barrels  
**Refinery runs** – up 3.1%, at 89.2%

The AAA said nearly 1 million fewer Americans will travel by automobile over the July 4<sup>th</sup> holiday than a year ago due to high gasoline prices. Car travel over the holiday period is

expected to fall 2.7% on the year, with 32.8 million Americans traveling between June 30 and July 4, down from 33.7 million a year ago. It stated that just over 3 million travelers or 8% of holiday travelers would fly over the weekend, up 9% on the year. The AAA stated that the US average retail price of gasoline fell by 21.5 cents/gallon on the year to \$3.637/gallon on Tuesday.

<b>June</b>
<b>Calendar Averages</b>
<b>CL – \$97.66</b>
<b>HO – \$3.0325</b>
<b>RB – \$2.9727</b>

The UK's Guardian newspaper reported that head of the Arab League, Amr Moussa, voiced concerns about NATO's campaign in Libya and had called for a ceasefire and talks with Muammar Gaddafi's regime. Meanwhile, the Secretary General of NATO, Anders Fogh Rasmussen said NATO would continue its bombing campaign in Libya after Italy called for a suspension of hostilities in Libya.

Iran's Oil Ministry agency Shana said an Iranian deputy oil minister and his delegation visiting Iraq to discuss fuel exports came under attack but were not harmed on Wednesday. The convoy came under fire in central Baghdad and two Iraqi guards were wounded.

**Refinery News**

Enbridge Inc said it would ration space on two of its pipelines in July due to high nominations and capacity restrictions. It said shipments on Line 5, which run from Superior, Wisconsin to Sarnia, Ontario, would be apportioned by 4%, which means customers would get 96% of the space they requested on the line. Line 6B, which runs from Griffith, Indiana to Sarnia, would be apportioned by 25%. Separately, Enbridge is discussing with customers the viability of shipping crude from the over supplied storage terminal of Cushing, Oklahoma to refiners along the Gulf Coast. Increasing oil production in the US midcontinent region has caused an oversupply in Cushing.

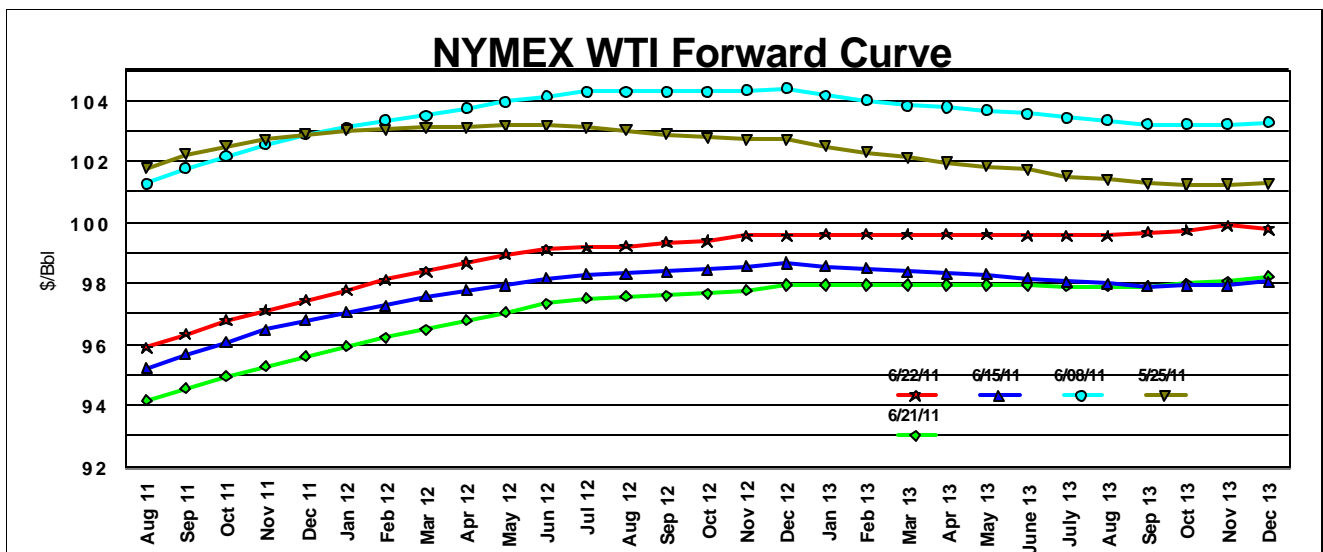
TransCanada Corp said its Keystone pipeline nominations would be apportioned by 19.28% in July.

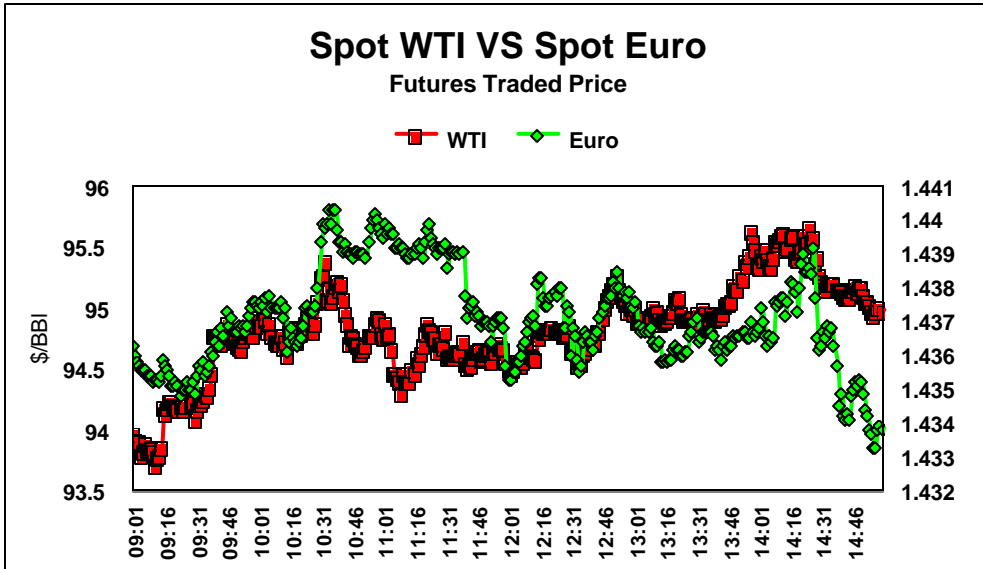
Valero Energy Corp restarted a coker unit at its 260,000 bpd Port Arthur, Texas refinery and is increasing to planned operating rates. Valero also stated that it is returning its 235,000 bpd Aruba refinery to planned operating rates. It has been operating at reduced rates following a June 9<sup>th</sup> power outage forced a shutdown of some units.

Chevron Corp reported flaring due to an upset at its 243,000 bpd Richmond, California refinery.

ConocoPhillips reported a release of hydrogen sulfide after a problem with the pressure safety valve on a fluid catalytic cracking unit 2 at its 100,000 bpd refinery in Ferndale, Washington.

ExxonMobil reported that a reactor flange leaked heavy powerformer feed at its 504,500 bpd Baton Rouge, Louisiana refinery. The leak led to a small fire that was quickly extinguished. It reported a shutdown of its syngas and air products unit due to a power outage at its Baytown, Texas chemical





plant. It said there was no impact on production and all customers' needs were being met.

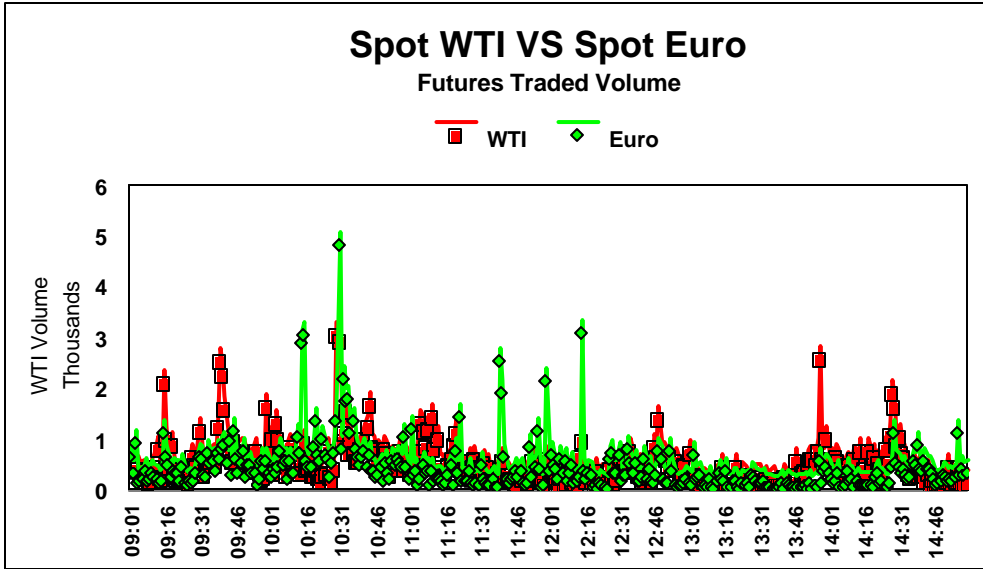
Marathon Oil Corp is restarting units at its 212,000 bpd refinery in Catlettsburg, Kentucky after a storm cut off power at the plant on Tuesday evening.

Wynnewood Refining Co shut a sulfur recovery unit at its 70,000 bpd Wynnewood, Oklahoma

refinery on Tuesday morning.

Frontier Oil shut a unit at its El Dorado, Kansas refinery.

PBF Energy said it is in the process of restarting its 182,000 bpd refinery in Delaware City, Delaware and anticipates reaching normal operations by the end of June.



Cenovus Energy Inc said as much as 8,000 bpd was shut in due to flooding in Saskatchewan. It has shut down up to a third of wells at its Weyburn field because of flooding.

Energy Transfer Partners and Regency Energy Partners are

expected to spend \$700 million to build a natural gas liquids pipeline connecting Texas' Winkler County with the Jackson County processing plant. The pipeline would have a minimum capacity of about 130,000 bpd. The project, which has over 65% of the capacity subscribed with producers and processors, is expected to be completed by the first quarter of 2013.

South Korea's GS Caltex requested an emergency supply of 870,000 barrels of diesel from the government to meet an unexpected increase in demand in June. In the first half of June, demand for diesel increased 40% on the year while demand for gasoline increased by 28%. The increase in demand is ahead of an expected increase in retail prices. Meanwhile, GS Caltex completed maintenance at a 70,000 bpd desulfurization unit on Wednesday. It also said a diesel producing unit is still partially shut following technical glitches earlier this month.

The Petroleum Association of Japan reported that gasoline stocks held by Japanese refiners remained almost flat on the week at 1.96 million kiloliters in the week ending June 18<sup>th</sup>. It reported that Japan's crude oil stocks increased by 218,079 kl to 17.44 million kl or 84.5 million barrels.

### **Production News**

Saudi Arabia is expected to supply additional supplies to one Japanese buyer on top of contractual volumes in July. Saudi Aramco has offered more crude to Asian refiners for July but interest has been lukewarm. Five buyers in China, South Korea and Taiwan rejected the offer.

Nigeria's oil exports are set to increase in August to about 2.25 million bpd, according to a preliminary loading schedule. It is the highest level in more than five and half years.

Goldman Sachs reported that Libya's crude oil exports could reach 355,000 bpd in the short term from the rebel controlled east. It said that level is unlikely to prevent prices from increasing in the second half of the year. It also stated that Libya's crude oil exports could increase to 585,000 bpd from additional shipments from fields in the west if there was a change in the government. Goldman Sachs also stated that the recent decline in prices is temporary and expects trading to remain volatile in the near term before strong demand from China and India drive prices higher in the second half of 2011.

Two additional cargoes have been included in the July loading program of North Sea Forties crude. Forties crude has been impacted by problems in recent months due to production problems on the Nexen Inc operated Buzzard field.

Iraq's Oil Ministry said sales of Iraqi crude oil exports in May totaled \$7.47 billion, the highest monthly revenue registered since Iraq started exporting its oil decades ago. Iraq exported an average of 2.225 million bpd in May, up from 2.14 million bpd in April.

The head of the Kuwait Oil Co, Sami Al-Rushaid said Kuwait is targeting an output capacity of 4 million bpd in 2020. In the short term a slight increase in the country's output is expected to meet additional demand in the summer.

### **Market Commentary**

Crude oil worked higher prior to and shortly after the release of the DOE numbers, which reflected a 1.711 million barrel draw in inventories. The vote of confidence for Greek Prime Minister, George Papandreou, was also supportive for the market. Gasoline found support from the first inventory draw in seven weeks. As long as prices can remain below the descending trendline that can be depicted on a spot continuation chart, we remain cautiously bearish for crude oil. This trendline is currently set at \$98.21. Trades above this level should provide for moves to \$102.44.

Crude oil: Aug 11 345,510 +19,106 Sept 11 157,402 +655 Oct 11 71,000 +1,682 Totals 1,528,927 – 3,641 Heating oil: July 11 48,509 –13,269 Aug 11 80,092 +4,475 Sept 11 44,489 –1,284 Totals 319,215 –8,824 Rbob: July 11 42,051+2,803 Aug 11 66,763 Sept 11 43,373 -328 Totals 257,509 +1,853.

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
	9821		31325		
	10244	27695	32777		33369
9250	10339	26680	33370	26965	35915
9026	10845	27375	33510	26300	36310
8950	11120	23685		25683	

8700	11483	22960		25145	
8625	11563			24240	
8500	11703			23631	
8385	12126			23414	
	14933				

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