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## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR JUNE 23, 2011**

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The IEA announced that it would release 60 million barrels of oil from emergency stocks in the next 30 days to alleviate problems caused by the shut in of Libyan crude exports. The first of the 60 million barrels of oil would hit the market early next week. It said its 2 million bpd stock release is intended to complement expected increases in output by producing countries to help bridge the gap until sufficient additional oil from them reaches

global markets. The IEA said the release is from stocks, not a swap with others. The US said it would release 30 million barrels of oil from its SPR. It said the oil stocks release was not influenced by the Greek crisis or by actors in the financial markets. Energy Secretary Steven Chu said the US is taking action in response to the ongoing loss of crude oil due to supply disruptions in Libya and other countries and their impact on the global economic recovery. Deputy Energy Secretary, Daniel Portman said the US decided to release oil from the SPR because there were concerns that there is tightness in the oil market due to a supply gap. A senior administration official said concerns about the impact of high oil prices on the world economy prompted President Barack Obama to agree to release oil from the SPR. Separately, South Korea's Ministry of Knowledge Economy said the country has decided to release a total of 3,467,000 barrels from its emergency reserve in coordination with the IEA.

#### Market Watch

Goldman Sachs said Brent crude oil prices could fall by \$10-\$12/barrel to \$105-\$107/barrel by the end of July after the IEA announced a release of 60 million barrels of oil from member countries.

Credit Suisse raised its 2011 average Brent crude price forecast to \$108.40/barrel from its previous forecast of \$106.50/barrel.

The US Labor Department said initial unemployment claims increased by 9,000 to a seasonally adjusted 429,000 in the week ending June 18<sup>th</sup>. The prior week's figure was revised higher to 420,000 from an originally reported 414,000. The four week moving average of new claims was unchanged from last week's 426,250. It reported that the number of continuing unemployment benefit claims fell by 1,000 to 3,697,000 in the week ending June 11<sup>th</sup>. The unemployment rate for workers with unemployment insurance was 2.9% in the week ending June 11<sup>th</sup>, unchanged from a week earlier.

The US Commerce Department said new home sales fell in May by 2.1% on a monthly basis to a seasonally adjusted annual rate of 319,000. The decline in home sales followed large increase in March and April. It reported that the median price for an existing home in the US is \$166,500.

The Federal Reserve Bank of Chicago's national activity index remained in negative territory in May at -.37 compared with -.56 in April.

Vitol is expected to resume Caspian oil swaps with Iran after a year long suspension of operations. Vitol has already signed a swap agreement with National Iranian Oil Co however the swap operations, under which Vitol supplies Iran with Caspian oil in exchange for Iranian crude volumes for loading on the Persian Gulf, will most likely start again towards the end of the year.

ICE Brent crude trading volume reached a record above 900,000 lots.

**June  
Calendar Averages**  
**CL – \$97.26**  
**HO – \$3.0178**  
**RB – \$2.9648**

The Obama administration's decision to release oil from the US SPR is drawing criticism. US House Speaker Boehner said the release of oil from the SPR threatens the US' ability to respond to genuine security crisis. Meanwhile, Senator Jeff Bingaman said the decision would have been more timely if made when the disruption in Libyan oil supplies first occurred. The American Petroleum Institute said the Obama Administration's plan to release

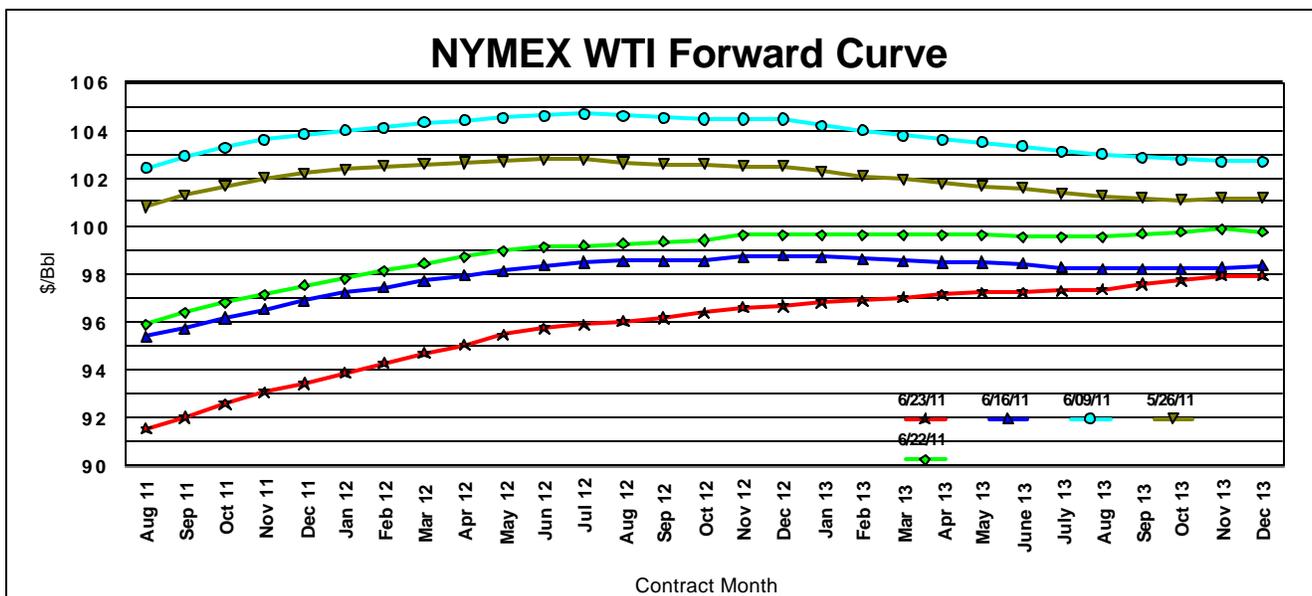
30 million barrels of oil from emergency reserves was ill-timed because there was no supply emergency of crude.

OPEC delegates from Iran and two Gulf states said the IEA's release of emergency stocks was unjustified.

An OPEC delegate said OPEC may have to hold an emergency meeting if the emergency oil stocks release lead to an oversupply or a fall in prices. The OPEC delegate said there will be excess in the market if Saudi Arabia heeds to its pledge to increase output and the IEA releases its stocks. A delegate said the release of oil stocks would hurt member revenues at a time of high instability risk.

According to a Reuters survey, demand growth in China and the Middle East in the second half of 2011 would require OPEC to add 1.43 million bpd to balance the market.

The EIA reported that crude oil storage capacity at Cushing, Oklahoma was about 5% higher at the end of March than it was at the end of September. It said the net available shell storage capacity at Cushing was 57.859 million barrels at the end of March, up 5.2% from the end of September 2010. Working storage capacity at Cushing increased 4.6% in March from September to 48 million barrels. In the week ending June 17<sup>th</sup>, crude stocks at Cushing stood at 38.036 million barrels. Shell storage capacity was 69.2% full while working storage capacity was 79.2% full.



Oil Movements reported that OPEC's oil exports, excluding Angola and Ecuador, would remain unchanged at 22.85 million bpd in the four weeks ending July 9<sup>th</sup>.

Britain's Prime Minister David Cameron said Libya's leader Muammar Gaddafi is losing ground and time is running out for him as the NATO led alliance is stepping up attacks on his regime.

## **Refinery News**

Frontier Oil Corp restarted a unit at its 107,500 bpd El Dorado, Kansas refinery. The refinery had been reporting emissions for much of the week due to a problem at the unit.

BP Plc reported a power dip on Wednesday morning at its 437,080 bpd Texas City, Texas refinery. It said operations at the refinery was unaffected by the dip in electrical power.

Valero Energy Corp said its 287,000 bpd Port Arthur, Texas refinery was nearing planned rates. The coker at the refinery restarted on Tuesday and was increasing to planned rates. It also restarted a crude unit, which was shut on June 6<sup>th</sup> when a lightning strike shut the coking unit.

PBF Energy has restarted the crude unit at its 182,000 bpd Delaware City, Delaware refinery.

Chevron Crop reported a sulfur dioxide release from flares at its 245,271 bpd Richmond, California refinery due to an upset caused by equipment failure late Tuesday.

Alon USA said its 80,000 bpd refinery in Krotz Springs, Louisiana was operating at planned rates after it was closed due to flooding on the Mississippi River six weeks ago.

Wynnewood Refining Co reported that a compressor tripped offline in a unit that led to a release of sulfur dioxide at its 70,000 bpd Wynnewood, Oklahoma refinery on Wednesday.

Tesoro Corp said its 120,000 bpd Anacortes, Washington refinery was at targeted throughput levels after it restarted a permanent boiler following the completion of repairs.

Mexico's Pemex said a fire at its Tula refinery shut its heat exchanger unit. The plant was immediately isolated and out of operation.

Brazil's Petrobras is expected to complete upgrades at its refineries by 2014 or 2015. Separately, Petrobras' Downstream Director Paolo Roberto Costa said it would continue to consider adding refining capacity to meet the country's fuel product needs. He said Brazil has refining capacity of 1.9 million bpd while its fuel demand is 2 million bpd.

ExxonMobil Corp plans to expand fuel storage capacity by more than 10% or 9 million liters at the Birkenhead fuel terminal in Adelaide, Australia. Construction of the new 9 million liter tank is expected to take about 12 months to complete and would commence after it receives approvals.

Gasoline stocks held in independent storage in the Amsterdam-Rotterdam-Antwerp area in the week ending June 23<sup>rd</sup> increased by 17.16% on the week but fell by 24.45% on the year to 717,000 tons. Gasoil stocks fell by 0.64% on the week but increased by 19.74% on the year to 2.803 million tons while fuel oil stocks fell by 16.55% on the week and by 16.45% on the year to 706,000 tons. Naphtha stocks fell by 24.14% on the week and by 14.29% on the year to 66,000 tons while jet fuel stocks fell by 6.68% on the week and by 52.26% on the year to 391,000 tons.

Euroilstock reported that total oil and oil product output in Europe increased by 2.9% on the month but fell by 1.9% on the year to 10.856 million bpd in May. Gasoline production in May increased by 2.4% on the month but fell by 5% on the year to 2.52 million bpd while middle distillate production increased by 0.9% on the month but fell by 0.3% on the year to 5.475 million bpd and fuel oil production fell by 2.2% on the month and by 6.1% on the year to 1.225 million bpd. Crude intake increased by 1.7% on the month but fell by 0.4% on the year to 10.448 million bpd. Refinery utilization increased to 79.76% in May from 78.43% in April.

Singapore's International Enterprise reported that the country's residual fuel stocks increased by 2.823 million barrels to 20.786 million barrels in the week ending June 22<sup>nd</sup>. Singapore's light distillate stocks increased by 347,000 barrels to 9.6 million barrels while middle distillate stocks fell by 634,000 barrels to 14.059 million barrels on the week.

South Korea's Korea National Oil Corp reported that the country's crude imports in May fell by 5% on the year to 72.3 million barrels or 2.33 million bpd. It was the first decline since April 2010. South Korea's crude runs increased by 9.6% on the year in May to 77.3 million barrels. Separately, KNOC said it started to work to release 870,000 barrels of diesel from its reserves to GS Caltex as requested.

Saudi Aramco bought another three cargoes of gasoline this week, bringing the total already secured for delivery in July to six cargoes. A source said Aramco's purchases of gasoline could eventually reach 15 cargoes.

**Production News**

Italy's Saras SpA has turned to Azerbaijan for its oil because it does not know when Libya will resume its role as its main supplier.

Syria, which is under threat of a sectarian civil war, is set to export crude oil in July. It is expected to export 116,000 bpd of crude, which is slightly lower than the usual export volume of 150,000 bpd.

Russia's Lukoil said it can work in any price climate after the Brent crude futures fell \$8 following the IEA announcement that it would release 60 million barrels.

**Market Commentary**

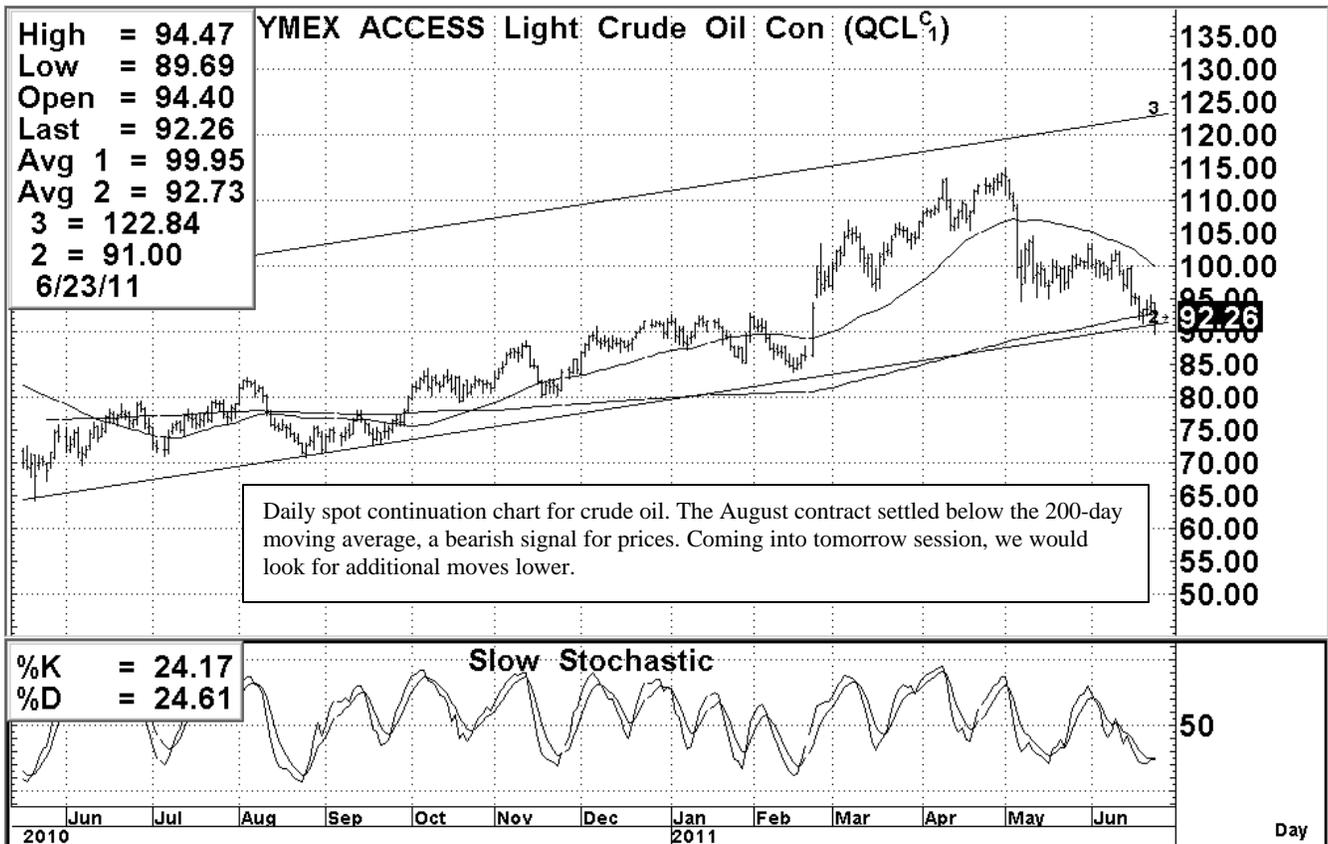
Oil plummeted to its lowest level in four months after the IEA announced that it would release 60 million barrels of crude oil from its reserves. This surprise move appears to have upset OPEC members and to have caught longs off guard. According to OPEC Secretary General, Abdullah al-Badri, this move is being "used as a weapon against OPEC," adding that "the IEA is acting as a central bank." The IEA voiced concern that any extra output by Saudi Arabia may not be enough to counteract short falls of light sweet crude due to the civil unrest in Libya. One Saudi analyst did articulate that as long as Brent remains above \$105 a barrel, he doubt as to whether OPEC would pullback on output.

From a technical standpoint, for the first time since September, the spot month crude oil settled below \$92.73, the 200-day moving average and just above the bottom of a long term ascending channel. Moving oscillators, although in over sold territory, have not crossed to the downside. This technical scenario, backed by the aforementioned news, should be enough for prices to test support at \$85.00, making this our downside objective.

Crude oil: Aug 11 336,389 -9,121 Sept 11 159,213 +1,811 Oct 11 70,300 -700 Totals 1,515,244 -13,683 Heating oil: July 11 42,730 -5,779 Aug 11 81,527 +1,435 Sept 11 44,612 +123 Totals 313,133 -6,082 Rbob: July 11 37,859 -4,192 Aug 11 70,006 +3,243 Sept 11 43,431 +58 Totals 256,121 -1,388.

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
	9821		31325		
	10244	27695	32777		33369
	10339	26680	33370	26965	35915

	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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