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## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR JUNE 27, 2010**

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The IEA announced the breakdown of its emergency stock release of 60 million barrels. It said 41.6 million barrels of crude would be made available to the market. It said 19 million barrels of refined products would be provided to the oil market, with 7.7 million barrels of diesel, 3.4 million barrels of gasoline, 1.2 million barrels of residual fuel and 422,000 barrels of jet fuel. The US is expected to release 30 million barrels of crude oil. The IEA said it would release 19.2 million barrels of stocks in Europe, with 4.2 million barrels of crude and 15 million barrels of

#### Market Watch

The US Commerce Department said US consumers put spending plans on hold in May amid concerns about a weak jobs market and rising prices. Consumer spending was flat in May. Incomes increased 0.3%. For April, spending was revised down to 0.3% from an initial estimate of 0.4%, with incomes also revised to 0.3% from 0.4%. The price index for personal consumption expenditures increased 2.5% on the year in May. It was the largest gain since January 2010.

The Chicago Federal Reserve Bank's Midwest Factory activity index increased 0.6% to 84 in May.

According to a Reuters survey, the industrialized world has likely capped oil prices for the rest of the year by releasing emergency reserves. Over 80% of the 30 survey respondents said Brent crude would remain below \$110/barrel over the next month. Over 85% expect Brent to remain below \$120/barrel by December, less than its peak this year in April while nearly 30% of those surveyed see it below \$100/barrel.

The euro fell initially against the dollar on Monday after Moody's said Greek banks have lost about 8% of their private sector customer deposits so far this year, warning that those institutions would face severe cash shortage if outflows total 35% of their deposits. The euro fell on concerns the debt crisis may deepen if Greece fails to approve drastic austerity measures needed to secure more funding for its debt.

Moody's ratings agency said Japan could face a third lost decade of sluggish economic growth that would leave it struggling to lower heaviest debt burden among developed nations. It chided the government's failure to meet a self imposed June 20<sup>th</sup> deadline for announcing a long term plan to deal with the country's debts as negative.

Speculators were cutting their net long positions in oil even before consumer governments said they would release strategic oil stocks. Hedge funds and other money managers cut bets in Brent and gasoil in the week ending July 21<sup>st</sup>, reducing net long positions in North Sea crude oil by more than 40%. ICE figures showed that most hedge funds and other money managers reduced their net long positions in Brent futures and options by 33,975 to 47,319 contracts. Net managed money longs in ICE gas oil were reduced by 10,179 to 31,143 contracts.

South Korea's industrial production growth is expected to fall in the second half of the year due to weak domestic demand and slowing export growth. A report from Korea Development Bank's economic research institute forecast that most of the country's major export items would post a slower growth in the second half compared with the first half.

The American Trucking Association's advance seasonally adjusted For-Hire Truck Tonnage Index fell by 2.3% in May after falling a revised 0.6% in April. On a year on year basis, tonnage increased 2.7% in May.

**June  
Calendar Averages**  
**CL – \$96.59**  
**HO – \$2.9904**  
**RB – \$2.9466**

refined products. It said the stocks release in the Pacific would include only Japan and South Korea with 7.4 million barrels of crude and 3.96 million barrels of products to be released by Japan.

OPEC Secretary General Abdullah al-Badri said oil supplies are likely to tighten in the second half of the year, although the IEA reserves release could pressure prices in the near term. He called for an immediate halt to the IEA emergency stocks release and said there was no need for the extra oil.

Kuwait's Oil Minister Mohammad Al-Busairi said the oil market will be in strong need of more supply in the third quarter of 2011. He said only Kuwait, the UAE, Saudi Arabia have the space capacity to increase output to meet additional demand. He said the market would require additional supply of about 2 million bpd.

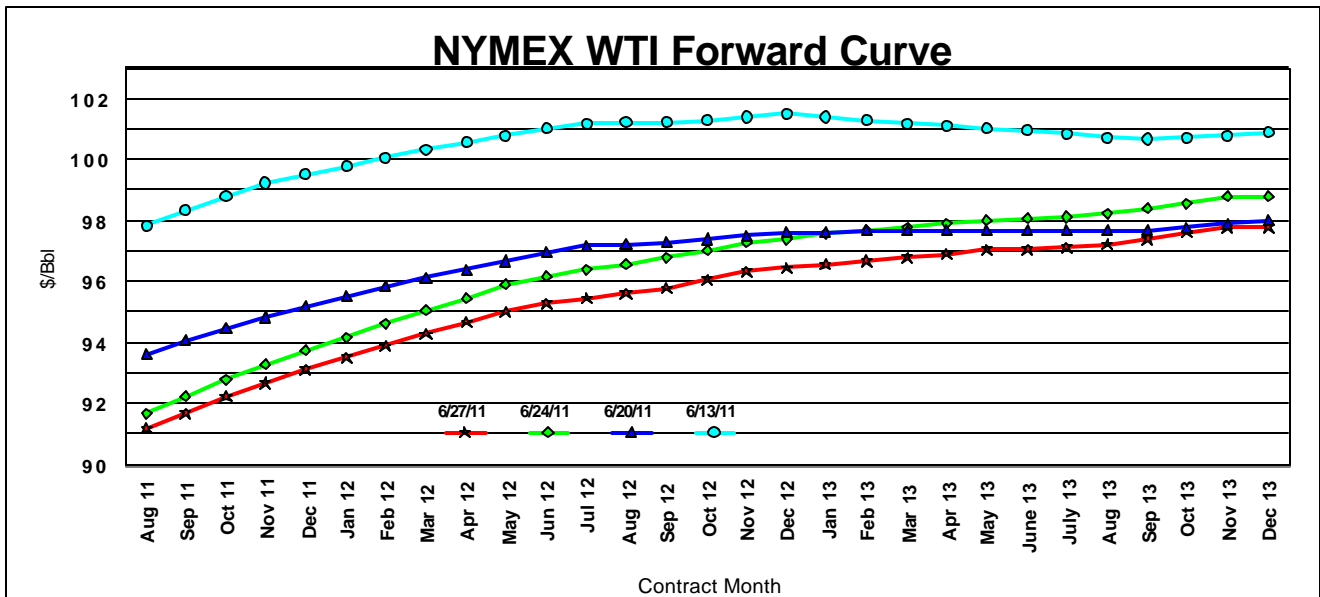
Saudi Arabia's Supreme Council for Petroleum and Mineral Affairs, headed by King Abdullah said OPEC can meet the current and expected demand in global crude markets. SCPMA's Secretary General Mutlab Al-Nafisah said the group's current spare capacity is adequate and the cartel is the source of stability of the global market and serves the interest of both producing and consuming nations.

Iran's Oil Ministry accused the IEA of breaching the principles on which it was founded by intervening in what he sees as well supplied oil markets. Iran's Oil Ministry caretaker and OPEC's President, Mohammad Aliabadi said there is no additional need for supply in the market. He said he would be willing to call an emergency meeting of the group if the market situation required it.

Shipping brokers said two oil tankers have been booked for use as floating storage vessels off the US Gulf Coast this month.

The EIA reported that the US average retail price of diesel fell by 6.2 cents to \$3.888/gallon in the week ending June 27<sup>th</sup>. The price of diesel is up 33% on the year. Meanwhile, the average retail price of gasoline fell by 7.8 cents to \$3.574/gallon on the week.

Russian President Dmitry Medvedev's chief economic aide, Arkady Dvordovich said Russia is concerned about economic problems in Europe and the US. He also stated that the oil price should not determine the pace of reform in Russia and that new political forces are emerging on the left and



right that would create a more balanced political system.

Russia's Deputy Foreign Minister Sergei Ryabkov said Iran's first nuclear power plant is set to start up in early August. The plant's construction was strongly opposed by Israel amid fears that it would form part of Iran's suspected nuclear weapons development program.

Senior allies of Venezuela's President Hugo Chavez dismissed reports he is sicker than the government has admitted. Venezuela's President has not been seen since a June 10<sup>th</sup> operation in Cuba to remove a pelvic swelling. His long absence has prompted widespread speculation he may be seriously ill, possibly being treated for prostate cancer. Government officials insist he should be back for a regional summit planned for Venezuela's 200<sup>th</sup> anniversary of independence on July 5<sup>th</sup>.

### **Refinery News**

Credit Suisse said US refinery margins fell by 12.1% in the week ending June 24<sup>th</sup>. Refinery margins in the Northeast fell by 52 cents to \$6.66/barrel while margins in the Midwest fell by \$2.64 to \$25.46/barrel and margins in the Gulf Coast fell by \$3.52 to \$25.34/barrel. Refinery margins in the Rockies region increased by 44 cents to \$34.57/barrel while margins in the West Coast fell by \$5.74 to \$11.57/barrel on the week.

Enbridge said July shipments on the Ozark crude oil pipeline from Cushing, Oklahoma to Wood River, Illinois will be apportioned at 92% due to over nomination by shippers. The Spearhead pipeline, which brings crude from Canada to the Cushing, Oklahoma delivery point, would carry about one third of its capacity due to under nomination. Ozark is expected to carry 228,708 bpd in July while the Spearhead pipeline is expected to carry 55,700 bpd.

ExxonMobil Corp reported flaring on Sunday due to a furnace shutdown at its 238,600 bpd refinery in Joliet, Illinois. Exxon was attempting to restart the furnace on Sunday.

ConocoPhillips reported flaring late Saturday at its 362,000 bpd refinery in Wood River, Illinois.

Sunoco Inc is restarting a reformer and hydrotreater unit in the Girard Point section of its 335,000 bpd refinery in Philadelphia. The units were shut on June 19<sup>th</sup> due to an instrumentation failure.

BP Plc reported that an ultracracker unit resumed operations at its 437,080 bpd Texas City, Texas refinery. Its startup will occur between June 27 and July 2<sup>nd</sup>.

Alberta energy regulator said it is investigating an explosion and oil spill at Pengrowth Energy Corp's facility on Sunday. It said an undetermined amount of oil spilled from a pipeline 23 km southeast of Swan Hills, Alberta. Pengrowth Energy said it shut in a portion of its Judy Creek field in northern Alberta after one of its smaller pipelines ruptured on the weekend.

Japan's Showa Shell Sekiyu KK said its 135,000 bpd No. 3 crude distillation unit at its Yokkaichi refinery has been shut since last week as a secondary unit is undergoing maintenance. It plans to restart the CDU in early July.

### **Production News**

A Gulf oil official said Gulf countries are still likely to increase its oil production in the summer despite a stock release by IEA members. The official however said a combination of both is set to bring an overall oversupply and lower prices.

China National Petroleum Corp said it brought online the Ahdab oil field in Iraq. The field's annual production capacity is 3 million metric tons or 60,000 bpd. Iraq will start exporting Ahdab crude for the

first time in July. Export volumes, which would initially total 60,000 bpd are expected to double by the end of the year.

Iraq's Kurdish region is exporting 175,000 bpd. An adviser to the Kurdistan Regional Government 's Minister of Natural Resources said production remains on track to reach 200,000 bpd by the end of the year.

Vietnam's crude oil exports in the first half of the year are estimated to have fallen 10.5% on the year to 3.94 million tons or 160,000 bpd.

Ecuador's central bank reported that the country's average crude oil production increased by 6% to 503,441 bpd between January and April, up from 473,000 bpd last year. Petroecuador's oil production averaged 358,508 bpd in the first four months while private companies' oil production averaged 144,933 bpd.

Russia's Energy Minister Sergei Shmatko said Russia this summer will introduce a unified export duty on crude and refined products starting July 7<sup>th</sup>. The proposal would cut the export duty on crude oil to a rate of 60% from 65%. The export duty on oil products would be set at 66% of the level of crude. The reform is designed to sustain upstream investment.

South Korea's Finance Ministry said there are no plans to cut the crude oil import tariff to help reduce refined fuel costs. A senior government official said that by lowering the 3% tariff in addition to the IEA's emergency oil stocks release, fuel prices would be lower by about 56 Korean won or \$0.052/liter even if refiners go ahead with an expected July price increase.

### **Market Commentary**

Friday's sell-off in crude oil continued today, narrowing the spread between WTI and Brent. The difference between the two dipped as low as \$13.00 during the trading session. As the IEA release of barrels gets underway, the arbitrage between WTI and Brent should continue to narrow as the two struggle to gain market dominance. Economic woes continue to hover over this market, triggering hedge funds and large speculators to take 14 percent of their longs out of the market. As this is the week before the long U.S. Fourth of July weekend, we expect that more longs will liquidate, forcing prices lower still. Our down side target remains at \$85.00.

Crude oil: Aug 11 330,972 +4,420 Sept 11 172,396 +5,542 Oct 11 75,801 +3,563 Totals 1,527,093 +15,792 Heating oil: July 11 30,226 -6,252 Aug 11 85,836 -717 Sept 11 45,295 +7 Totals 312,315 - 5,576 Rbob: July 11 22,533 -5,999 Aug 11 69,337 Sept 11 41,182 +966 Totals 239,694 -1,930.

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
	9280		31325		
		27150	32777		33369
	9821	26680	33370	26965	35915
	10244	27375	33510	26300	36310
8950	10339	23685		25683	
8700	10845	22960		25145	
8625	11120			24240	
8500	11483			23631	
8385	11563			23414	
	11703				

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