



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JULY 16, 2008

Iran's supreme leader Ayatollah Ali Khamenei vowed that Iran would not accept any threats in negotiations with major world powers over its nuclear program. He warned that any attack would meet with strong retaliation. He added that Iran would "cut off the hand" of any aggressor against Iran. His comments came ahead of talks on Saturday between Iranian nuclear negotiator Saeed Jalili and European Union foreign policy chief Javier Solana on the latest proposals to end the nuclear standoff. A US administration official said Undersecretary of State William Burns scheduled to take part in talks with Iran over its nuclear program will be listening and not

Market Watch

The US Senate unveiled legislation on Wednesday that would not impose high margins on oil traders but would still aim to rein in excessive speculation in energy markets. The bill would require the CFTC to distinguish between true hedgers, like airlines, and speculators. Swap dealers and commodity index traders would have to report their trading activities to the CFTC, which would make sure index traders are not adversely affecting the price discovery of oil and other commodities. The legislation also requires foreign exchanges that trade contracts similar to those listed in US markets to publish comparable daily trading information and adopt position limits that match requirements at US futures exchanges. The FERC would also have to begin an investigation within 30 days on the role of speculators in natural gas markets and submit its findings to Congress within 270 days. Senate Majority Leader Harry Reid said he hopes to bring the bill to the Senate floor for a vote in the near future.

The Labor Department reported that the consumer price index increased by 1.1% in June, the largest monthly increase since June 1982. Excluding food and energy, it increased 0.3%. It reported that consumer prices increased by 5% on a year on year basis, the highest rate since May 1991. In a separate report, the Labor Department said the average weekly earnings of US workers, adjusted for inflation, fell by 0.9% in June, suggesting income was not keeping pace with prices.

Britain's Treasury said Finance Minister Alistair Darling is delaying a fuel duty increase planned for October for at least another six months. The fuel duty was set to increase by 2 pence/liter on October 1, an increase that has been deferred from April.

The Organization for Economic Cooperation and Development said public support for biofuels is costly and has little impact in cutting greenhouse gas emissions. It added that governments would do better promoting lower energy consumption to fight climate change. It also stated that government should also increase the second generation biofuels that do not use food crops.

DOE Stocks

Crude – up 3 million barrels
Distillate – up 3.2 million barrels
Gasoline – up 2.4 million barrels
Refinery runs – up 0.3%, at 89.5%

negotiating. The White House also stated that if Iran did not accept the incentive package there would be more sanctions imposed against the country.

Saudi Arabia's King Abdullah said the price of crude oil is too high and is partly driven by speculation, which must be stopped. He said he wants to see lower oil prices. He said

the recent decision by OPEC to increase its oil production has not had the desired effect on lowering prices. He said oil producers must closely work with oil consumers to stabilize the price of oil.

Brazil's Norte Fluminense Oil Workers Union said striking oil workers are scheduled to meet with Petrobras later Wednesday. The union is demanding that days on which its workers depart from the oil platforms for shore be counted as paid work days. The strike is expected to spread nationwide on Thursday and Friday after the FUP umbrella union on Tuesday voted to proceed with a protest for better profit sharing benefits. It however said the strike would not halt production but could cause disruptions to operations at refineries and other installations.

Refinery News

TransCanada Corporation announced plans to expand the Keystone crude oil pipeline system and provide additional capacity of 500,000 bpd from Western Canada to the US Gulf Coast in 2012. The expansion will increase the commercial design of the Keystone Pipeline system from 590,000 bpd to 1.1 million bpd.

Buckeye Pipeline Co LP said it will not accept additional nominations for August shipping on its oil products line 304 into Ohio and Michigan.

Citgo shut a fluid catalytic cracking unit at its 156,000 bpd refinery in Corpus Christi, Texas for a week of maintenance work. It was not clear whether the work was planned.

Saudi Arabia's new 60,000 bpd gasoline unit at its Rabigh refinery will come online between the end of September and early October. The unit is part of the 400,000 bpd PetroRabigh refinery.

China's Liaoyang Refinery, a unit of PetroChina, started processing Venezuelan crude last week in a bid to cut costs in the face of capped domestic fuel prices. It plans to refine a total of 500,000 tons of Venezuelan crude this year.

Taiwan's Formosa Petrochemical Corp shut its 84,000 bpd residual fluid catalytic cracking unit due to a leak, just days after it restarted the unit following a 10 day maintenance shutdown last week. It said there will be limited impact on its July gasoline supplies because it has sufficient stocks.

Japan's Trade Ministry will sell 95,000 kiloliters or 600,000 barrels of Mexican crude via tender. It said it will sell 20,000 kl of Mexican and Mexican Light crude and 75,000 kl of Isthmus crude from its strategic reserves.

The Petroleum Association of Japan reported that the country's crude oil inventories in the week ending July 12 increased by 8.72 million barrels on the week and by 2.96 million barrels on the year to 110.17 million barrels. It reported that its gasoline stocks fell by 180,000 barrels on the week but increased by 1.5 million barrels on the year to 13.58 million barrels while its kerosene stocks built by 1 million barrels on the week but fell by 5.54 million barrels on the year to 12.34 million barrels. It reported that Japan's refinery utilization stood at 75.9% of total

July Calendar Averages

CL – 140.78

HO – 397.28

RB – 346.88

capacity of 4.9 million bpd, down from 76.5% the previous week. Crude runs fell by 30,000 bpd to 3.72 million bpd. Separately, Japan's Oil Information Center reported that Japan's retail gasoline price fell to 181.3 yen or \$1.73/liter or \$6.55/gallon in the week ending July 14 from its record of 181.5 yen the previous week.

India's Reliance Industries sold a total of 540,000 tons of term gasoline supplies for the second half to two buyers at discount levels, adding to an already well supplied Asian market. Asia is also seeing additional gasoline supplies from South Korea, where its top refinery SK Energy has installed a new 60,000 bpd residual fluid catalytic cracker which enables it to export at least 120,000 tons of gasoline a month.

Vitol is scheduled to ship 30,000 tons of gasoline from South Korea to Canada in a rare move due to a lack of demand in Asia.

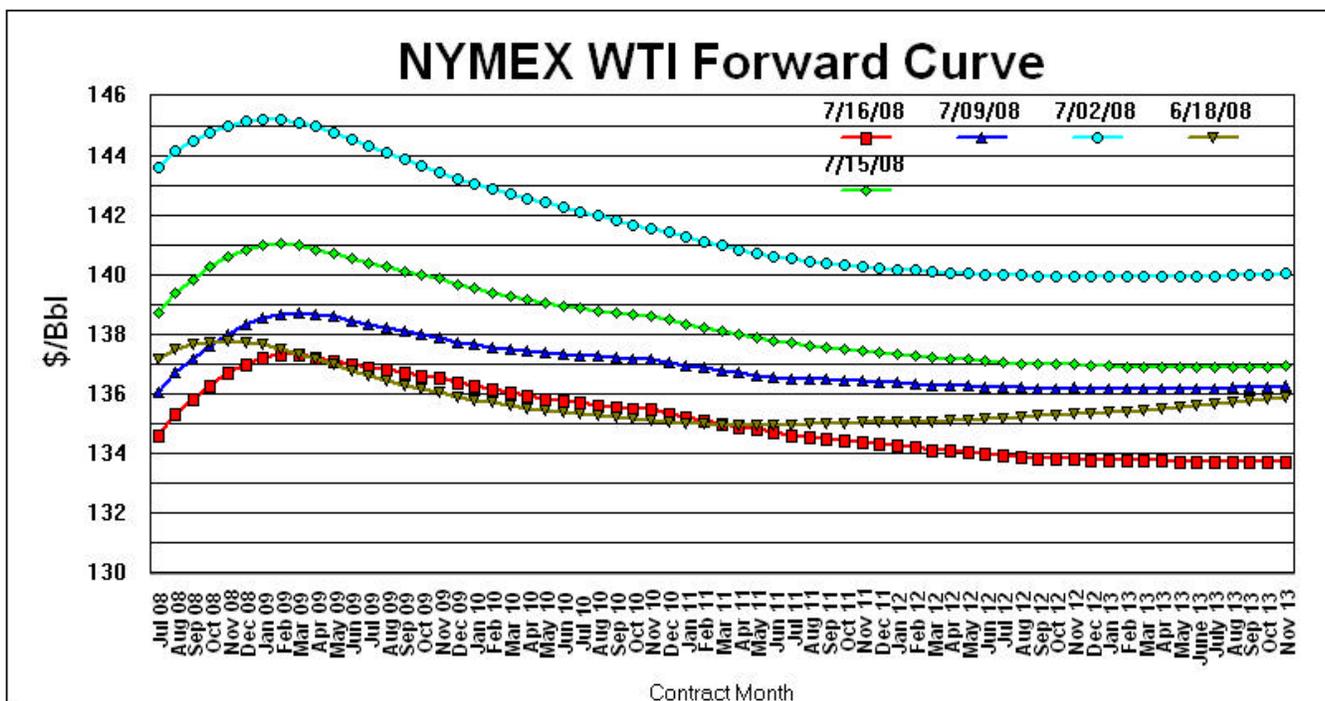
China Aviation Oil Corp Ltd is forecast to seek 355,000 tons of jet fuel in a tender for September delivery, down 11% from August purchases due to lower demand.

Production News

According to PFC Energy, Saudi Arabia is on track to meet its promise to increase its oil production capacity to 12.5 million bpd next year and hold it through at least 2011. The study contradicts a report in BusinessWeek magazine that said Saudi Arabia's production would likely increase to about 10.4 million bpd by 2010 due to faster than expected declines from mature fields.

Iraq's Kirkuk oil exports from its northern oilfields to the Turkish export terminal at Ceyhan resumed early Wednesday after a brief suspension. A shipping agent said the rate of pumping since early Wednesday was 18,000 barrels/hour or 432,000 bpd. Loading operations have not started yet because there are only 300,000 barrels at the crude oil storage facilities in Ceyhan.

The first cargo loading of Australia's new Vincent crude is likely to be deferred to September from its initial plans for August as the start up of the field is being delayed. It is expected to start up at 40,000-



50,000 bpd before ramping up to 80,000 bpd.

Pemex reported that production from Mexico's Cantarell oilfield will fall to 600,000 bpd in 2012, down from its current production level of 1.038 million bpd.

OPEC's news agency reported that OPEC's basket of crudes fell to \$138.00/barrel on Tuesday from \$139.81/barrel on Monday.

Market Commentary

Energy prices fell again today as the DOE/API numbers indicated greater builds than what was expected. Crude oil inventories rose 2.95 million barrels; gasoline stocks were up 4 million barrels and distillate stocks increased by 3.2 million barrels. Demand for gasoline fell 2.1% on the year, with demand for distillate increasing 2.5% on the year. The dollar was strong today, which in turn decreases the appeal of commodities as a hedging tool. This market can still go either way at this point. Based on open interest, shorts have entered the market as open interest for crude oil increased by 23,591. It will be interesting to see if bears take over as length continues to liquidate and if speculators view this move lower as an opportunity to buy. The shape of the forward curve remains basically the same, however the tip of the curve is pulling further away from the deferred. Basis the September 08 crude oil contract, this is the first time since January that crude oil has settled below the bottom of the ascending channel on a weekly chart. This now sets up for a test of the \$131.60 congestion bottom. A penetration of this level sets up prices to test the \$122.60 support number. Slow stochastics for this chart are pointing lower in overbought territory. RSI's have turned to the down side and are trading below the 70% overbought territory. Based on this observation, it appears that there may be more room to the downside. After spending 28 days in a period of consolidation, gasoline finally broke to the downside. The measured move off of this breakout is \$3.0315. As expected demand for gasoline decreased, falling 2.1% on the year. Given the economic situation in the U.S., demand should continue to suffer, as consumers hold on to their purse strings a little bit tighter. With this in mind, we would not discount a move to the aforementioned support of \$3.0315. Heating oil followed the rest of the energy complex lower for the third straight day, however remains within the \$4.0359 - \$3.7104 congestion range. RSI's and slow stochastics are trending lower in neutral territory. We would expect that prices would continue to work lower, testing the \$3.7104 channel bottom. Although we expect further downside movement in this product, it should not be as significant a loss as we expect for the gasoline. Open interest for crude oil is 1,344,411 up 23,9591, August08 146,402 down 8,114, September08 302,008 up 21.478 and December 08 179,829 102. Total open interest for heating oil is 227,987 up 2,751, August08, 39,432 down 853 and September 08, 53,940 up 2,914. Total open interest for gasoline is, 244,161 down 3,616, August08 44,414, down 4,144 and September, 69,273 up 1,275.

August Crude Support	July Crude Resistance
131.60, 128.35, 122.60, 108.40, 85.40	140.60, 144.00, 147.90, 150.56
Heating oil support	Heating oil resistance
3.8215, 3.6800, 3.5450, 3.5100, 3.3500, 3.1680, 3.0980	4.0210, 4.0765, 4.1200, 4.3614
Gasoline support	Gasoline resistance
3.1760, 3.09.20, 3.0730, 3.0400, 3.0250, 2.9255	3.6021, 3.755, 3.4655

