



ENERGY RISK MANAGEMENT

Howard Rennell, Pat Shigueta,
& Karen Palladino
(212) 624-1132 (888) 885-6100

www.e-windham.com

ENERGY MARKET REPORT FOR MAY 19, 2009

US Energy Secretary Steven Chu said a recent increase in oil prices reflect expectations of improving global economies.

Libya's top oil official, Shokri Ghanem said an improving economic outlook is driving the rise in oil prices and the rally is expected to continue. He said OPEC members should comply fully with their existing cuts on oil output and added that it is too early to tell if OPEC needed to adjust supply further at its meeting on

Market Watch

Templeton Asset Management Ltd's executive chairman, Mark Mobius said he expects crude oil prices to increase to \$70/barrel next year. He said demand for gasoline and oil related products as well as a lack of alternative fuels in the short term will support oil prices.

According to Citi FX technical analysts, crude oil prices may fall to the mid-\$40s after falling to sustain a move above \$60/barrel last week. It said oil failed at the psychological \$60/level and momentum has turned down, suggesting the danger of a shorter term correction.

The Commerce Department said new US housing starts fell by 12.8% to a seasonally adjusted annual rate of 458,000 units, the lowest level since January 1959. Compared to the same period last year, housing starts fell by 54.2%. New building permits fell by 3.3% to 494,000 units, the lowest since records started in January 1960 from 511,000 units in March.

The Baltic Exchange's main sea freight index increased by 1.5% to 2,644 points on Tuesday from 2,605 on Monday on higher imports into China. The index has posted gains for five consecutive sessions and is at its highest level since early October 2008 when it reached 2,764.

China's National Development and Reform Commission increased ex-refinery prices for jet fuel by about 13% or CNY460/ton or \$67.40/ton to 4,020 yuan. The increase, if confirmed, will be the first in domestic oil product prices since mid-March despite substantial gains in crude oil prices over the period.

May 28th.

API Stocks

Crude – down 4.468 million barrels
Distillate – up 1.412 million barrels
Gasoline – down 5.366 million barrels
Refinery runs – down 1.3%, at 80.6%

Ecuador's Oil Minister Derlis Palacios said OPEC will analyze policies for 2010 during OPEC's next meeting as world oil prices increase. He said Ecuador is complying with its OPEC quota by producing about 460,000 bpd of crude.

US President Barack Obama announced new government rules designed to increase fuel efficiency and cut greenhouse gas emissions. The new rules will require new passenger cars sold in the US to meet an average mileage requirement of 39 miles per gallon by 2016. Light trucks will have to meet an average mileage requirement of 30 miles/gallon, bringing the overall average to 34.5 mpg by 2016, saving 1.8 billion barrels of oil. The Union of Concerned Scientists said it expects the plan to cut the US' dependence on oil by about 1.4 million bpd by 2020.

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| <p>May Calendar Averages CL – \$57.09 HO – \$1.4691 RB – \$1.6682</p> |
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Separately, President Barack Obama said he hopes to begin negotiations with Iran soon after Iran holds presidential elections next month. He said he wants to see serious progress by the end of the year following talks with Israel's Prime Minister Benjamin Netanyahu. He holds out the prospect of stricter sanctions against Iran "to ensure that Iran understands we are serious" if it continues its nuclear program.

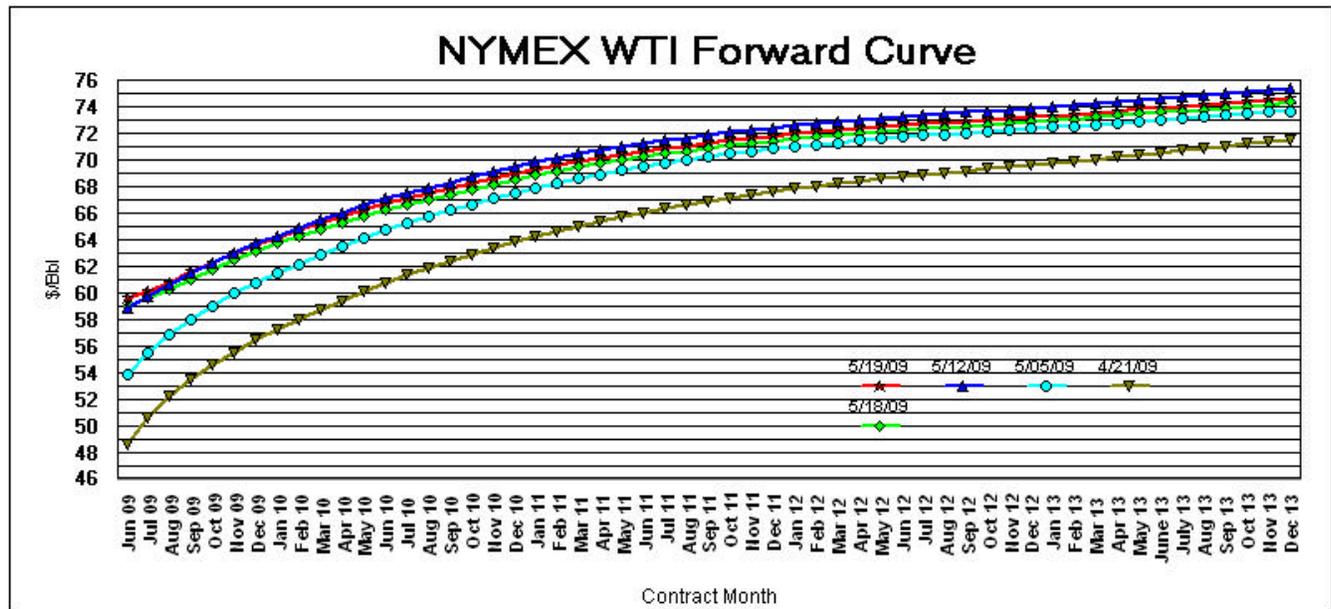
Nigeria's security forces clashed with militants on Tuesday close to Chevron's Abiteye flow station in the western Niger Delta. Nigeria is on alert for retaliatory attacks after the military launched its largest offensive for several years last week, bombarding a major militant camp with helicopters and gunboats. Local rights groups said the military's use of helicopter gunships has triggered a mass evacuation of villagers and have urged restraint by the security forces.

The EIA said it has no plans to increase its estimates for Venezuelan oil output despite Venezuelan efforts to convince secondary sources the figures are too low. The EIA will maintain its estimate that Venezuela is pumping about 2.1 million bpd, much lower than levels implied by the Venezuelan ministry. The EIA wants to see additional, independently audited information from Venezuela before adjusting its estimates. Venezuela's Oil Ministry released oil export and import figures, which it says, show energy analysts, have significantly underestimated the country's production levels.

Refinery News

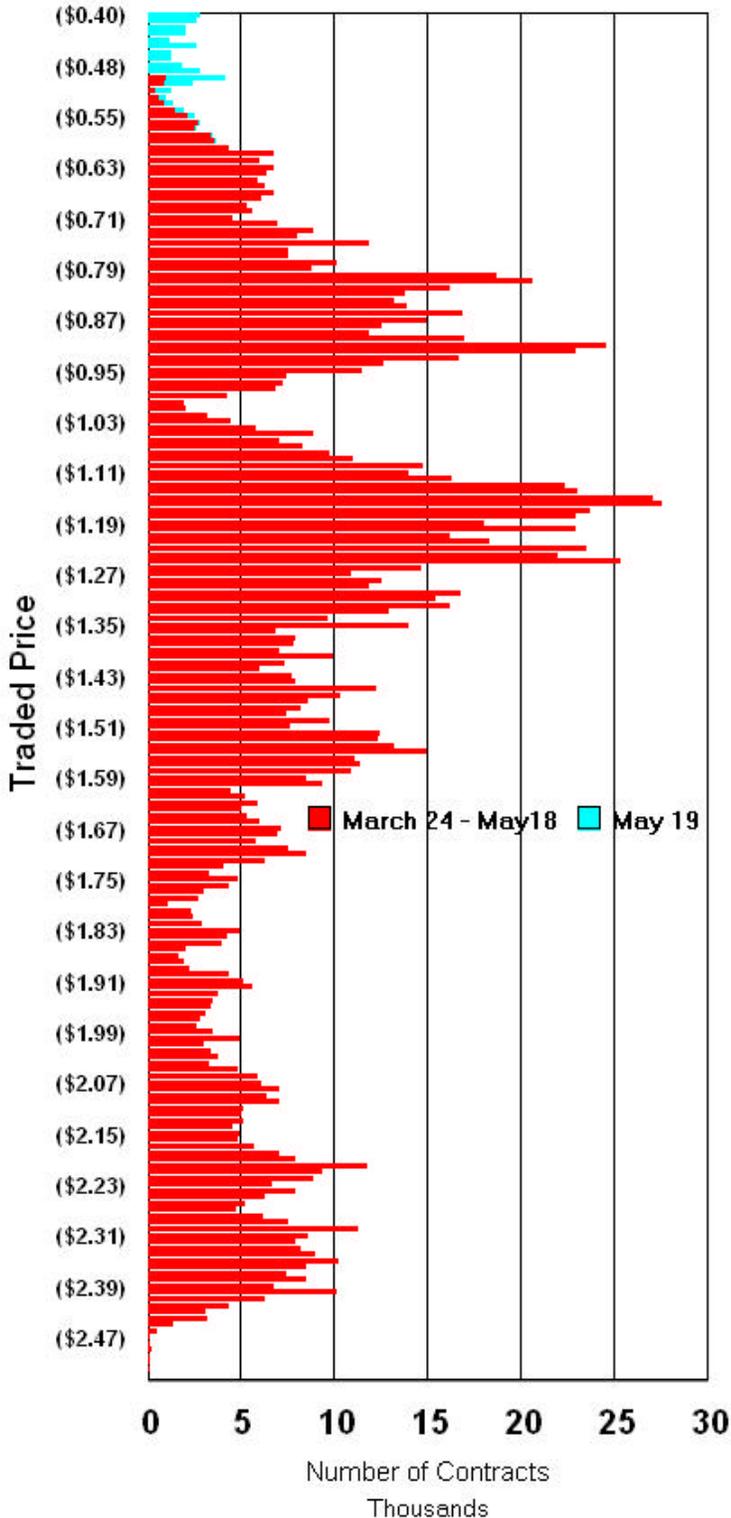
Colonial Pipeline is allocating nominations of distillate fuels shipments on its regional delivery line from Atlanta, Georgia to Nashville, Tennessee for cycles 29 and 30.

The US Coast Guard closed the Mississippi River south of Memphis, Tennessee on Tuesday following



NYMEX WTI: June July Spread Price Vs Volume for March 24 - May 19, 2009

Trade Weighted 5/15 -.68, 5/18 -.65, 5/19 -.46



a vessel collision. Meanwhile Valero Energy Corp said its 195,000 bpd refinery at Memphis receives crude oil by pipeline, so its feedstock supply would not be affected by the closure of the river.

Damage assessment from a fire at Sunoco's 178,000 bpd refinery in Marcus Hook, Pennsylvania will take at least a week. Sunoco said firefighters extinguished late on Monday a fire that hit the ethylene plant. It shut a fluid catalytic cracking unit at the refinery following the explosion in the ethylene unit.

Emergency management officials confirmed a fire in a slop tank at BP's 467,720 bpd Texas City refinery is under control. Officials said the fire is contained within the refinery and is no threat to the community. The fire did not impact production. An official said the tank held several different products.

A fire was reported in the east plant of Flint Hills Resources' 288,126 bpd Corpus Christi, Texas refinery on Tuesday. A fluid catalytic cracking unit was shut down due to the fire.

Shell Oil Co said emergency teams responded to a release at Unit DU-2 at its 333,700 bpd Deer Park, Texas refinery Tuesday morning.

Ineos Plc said some units at its 210,000 bpd Grangemouth refinery will resume operations but would not say when.

Total SA said surplus gasoline from its European refineries can be absorbed by its trading division, despite the fall in US demand. US demand for gasoline was 8.91 million barrels in the week ending May 8th and the recession is likely to keep it below normal levels even during peak months between late May and early September. The economic crisis is exacerbating a longer term expected decline in US gasoline import demand, linked to new refining capacity, greater energy efficiency and use of biofuels. An

analyst at Societe Generale SA said declining US imports of European gasoline will lead to lower refining margins, lower corporate profits and permanent refinery shutdowns.

A joint venture between ExxonMobil, Saudi Aramco and China's Sinopec Corp said it started trial runs at its new Fujian refinery on China's southeastern coast. The entire complex, which includes a 240,000 bpd refinery and an 800,000 ton/year ethylene complex will enter full operations in the second half of 2009.

ConocoPhillips said about 200 maintenance contractors at its 221,000 bpd Humber refinery in northern England went on strike on Tuesday morning. ConocoPhillips said refinery operations were not affected by the strike. The GMB union said UK energy facilities were hit by a wave of strikes Tuesday objecting to the use of foreign labor. It said the strike was held in sympathy with a strike by contractors at the South Hook liquefied natural gas terminal at Milford Haven.

South Korea's SK Energy will cut spot diesel exports to 600,000 barrels in June from 900,000 barrels in May due to low refining runs. Margins for complex refiners in Asia processing Dubai crude have fallen to \$1.92/barrel from the average of \$4.09/barrel over the past five days.

Saudi Arabia is expected to cut gasoline imports by nearly 29% to 57,000 bpd in June from 80,000 bpd in May, as domestic production capacity increases following refinery maintenance work. Saudi Arabia typically imports between 60,000 and 70,000 bpd each month but increased its imports in recent months due to refinery maintenance work. Increasing inventories of gasoline in Saudi Arabia, forcing about 1.5 million barrels into seaborne storage, could also weigh on imports. Shipping and trading sources said onshore storage was almost at capacity as Saudi Arabia has been taking advantage of weak global prices in recent months to build up its inventories.

Glencore purchased two more cargoes of 92-octane gasoline in the Singapore cash market, increasing its total for the end of May, early June loading period to 400,000 barrels since May 7th to meet demand in Africa. Meanwhile, Shell has so far bought 300,000 barrels of 97 octane gasoline for liftings in May and June.

Indonesia's Pertamina is purchasing a total of 5.25 million barrels of sweet crude for July arrival via two tenders. It is the third consecutive month, Pertamina is purchasing over 5 million barrels of crude.

Iraq has issued two tenders seeking a total of 160,000 metric tons of gasoline for delivery from July 1 to December 31, 2009. Iraq's State Oil Marketing Organization tenders include 90,000 tons of unleaded 92-octane gasoline to be shipped through the southern Khor al-Zubair port in southern Iraq. The remaining 70,000 tons will be transported to Iraq by trucks from Iran.

Production News

Nigeria's Minister of State for Petroleum Odein Ajumogobia said Nigeria's crude oil production was about 1.6 million bpd, excluding condensate before the latest Niger Delta unrest late last week. The production level suggests Nigeria is struggling to meet its full OPEC output quota of 1.67 million bpd. He said Nigeria's oil production at one point last month fell as low as 1.2 million bpd but had recovered again before heavy clashes between the security forces and militants in the western Niger Delta at the end of last week.

Italy's ENI Spa confirmed force majeure has been declared on 52,000 bpd of crude from the Brass River field in Nigeria on Tuesday. ENI's equity share is 9,000 bpd.

Brazil's Petrobras notified the country's National Petroleum Agency that a wildcat well in the Santos Basin tested positive for oil. The discovery was made in the offshore BM-S-3 block.

China agreed to lend \$10 billion to Brazil's Petrobras in exchange for guaranteed oil supply over the next decade. Brazil will supply China's Sinopec with an average 150,000 bpd of oil in 2009 and will increase its supply to 200,000 bpd for the next 10 years. Sinopec and Petrobras also signed a memorandum of understanding on exploration, refining and petrochemicals.

Venezuela's Oil Minister Rafael Ramirez said the country is poised to begin building the first joint Venezuelan-Chinese oil drilling platform in June. The planned oil rig assembly is the second stage of a 2007 deal under which China agreed to build 13 oil drilling platforms.

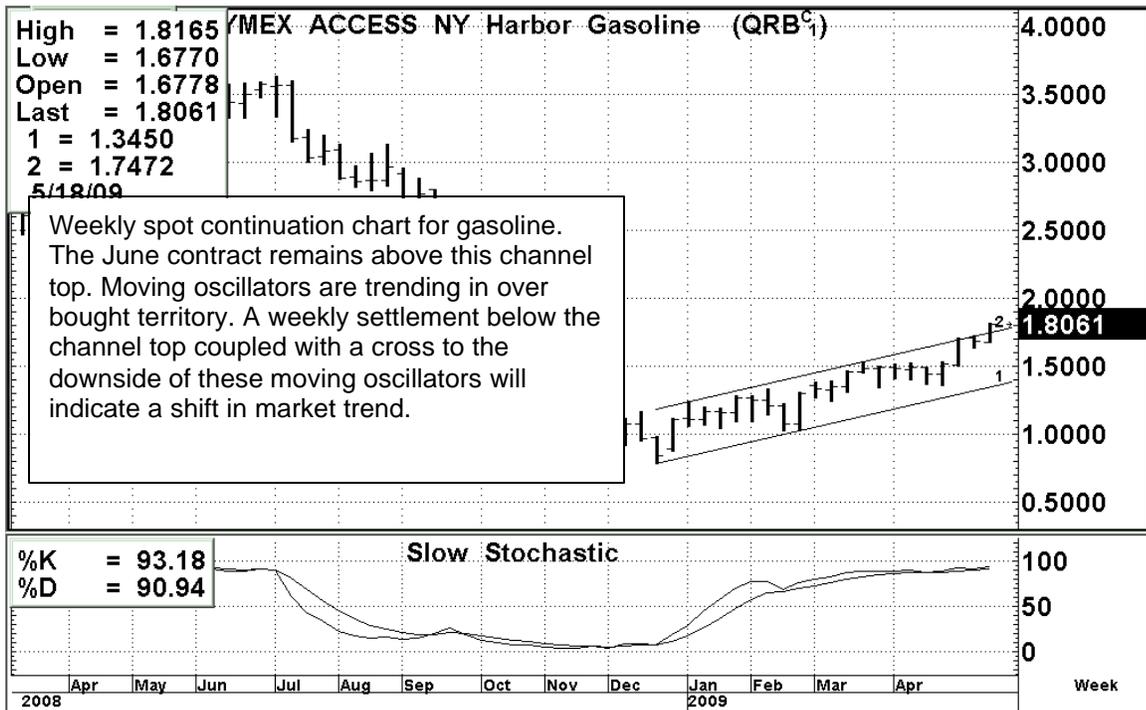
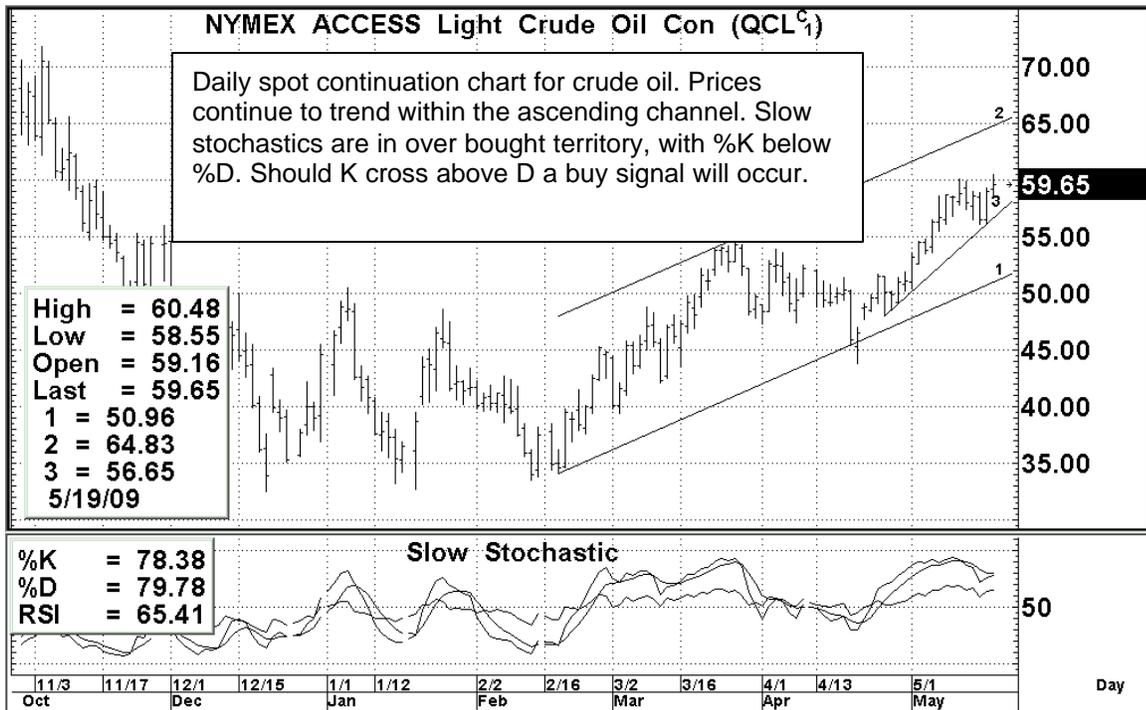
Royal Dutch Shell Plc and Russia's OAO Tatneft have postponed the creation of a joint venture to develop bituminous oil fields in Tatarstan due to the fall in oil prices.

OPEC's news agency reported that OPEC's basket of crudes fell slightly to \$55.86/barrel on Monday from \$56.37/barrel last Friday.

Market Commentary

The price of crude oil swung like a pendulum between lower and higher levels on the day. Expectations of inventory draws coupled with an unexpected drop in housing starts led to today's price activity. According to a survey, U.S. crude oil inventories most likely dropped last week by 700,000 to 1.5 million barrels. This expected fall in inventories is being attributed to a decline in imports. Gasoline inventories are expected to fall by 1 million barrels, with inventories for distillates expected to decrease by 800,000 barrels. Despite these expected inventory declines, we have yet to see steady economic growth. Without steady economic growth, demand should remain unseasonably low, thereby keeping a lid on prices. This recent move higher is detached from the true fundamentals of the market, where stock levels remain high as demand continues to struggle. This is not, however reflected in the shape of the forward curve. The tip of this curve is starting to turn higher, indicating front month strength. This may be indicative of deliveries being made against the June contract. With June now off the board, July is the front month. We will have to have a wait and see attitude to see if July can maintain the strength June displayed. Gasoline once again took center stage, settling 5.44 cents higher on the day. This recent strength comes at the onset of the U.S. summer driving season. Stock levels and demand coupled with economic growth will be key to this market. We are now in the twelfth business day of the month and any one following the trade recommendation for June gasoline should be long again. This contract, based upon our historical observation, should continue higher up until the last trading day of the month, which is May 19th.

Crude Oil (JUN.09 19,950 -38,574 JUL.09 352,525 +9,933 AUG.09 92,559 +2,300 SEP.09 62,515 -636 Totals: 1,112,229 -24,004 N.Y. Heating Oil (HO) JUN.09 35,231 -2,948 JUL.09 46,002 +610 AUG.09 26,599 +1,593 SEP.09 19,582 +421 Totals: 260,460 + 313 NEW YORK HARBOR RBOB (JUN.09 53,786 -3,445 JUL.09 78,922 +3,506 AUG.09 31,532 +1,646 SEP.09 20,154 -170 Totals: 229,388 +2,382



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|-----------------------------------------------------------------------------------------------------------|--------------------------------------------|
| Crude Support | Crude Resistance |
| 55.45,54.49, 53.45, 52.33, 46.68, 45.10, 44.50, 43.80, 40.00, 38.95, 32.25, 29.66, 28.63, 26.65, 25.50 | 61.20, 61.60, 62.28, 65.50 |
| Heat Support | Heat resistance |
| 1.2715,1.2300, 1.1359, 1.1095, 1.0520 | 1.5520, 1.6025, 1.6475, 1.6688, 1.6715, |
| Gasoline support | Gasoline resistance |
| 1.5370, 1.5260, 1.3560, 1.3400, 1.3180,1.2700, 1.2625 1.1680,1.0128, .9590 | 1.8800, 2.0700, 2.1600 |

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