



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JULY 3, 2008

Saudi Arabia's Oil Minister Ali al-Naimi said the country was concerned about high oil prices but reiterated that there were no constraints on near term crude supplies. He said oil prices above \$145/barrel are being driven by many factors, not a shortage of crude. He said oil prices were driven by a large flow of financial money, a weak US dollar, geopolitics, fear the world was running out of fossil fuels and natural disasters.

Venezuela's President Hugo Chavez said a price of \$100/barrel for oil was fair.

Market Watch

A German government source said a clear statement by the Group of Eight industrialized nations on oil prices would be a definite help. The source expected the G8 to detail closer cooperation with oil producers. The group would also likely seek measures to address imbalances in the supply and demand of oil. Earlier on Thursday, a senior Japanese government official said G8 leaders will discuss concerns that a weak US dollar is a contributing factor to high oil prices.

In response to Italy's Economy Minister's call for action to curb market speculation, the spokesman for the European Commissioner for Competition said a European Union Treaty could be used to combat collusion and commodities market speculation. Italy's Economy Minister Giulio Tremonti suggested the EU invoke article 81, which prohibits acts that would hinder free competition in the common market, such as directly or indirectly fixing purchase or selling prices or any other trading conditions.

Chevron said it believes high oil prices are driven by concerns about supplies. A senior company official said most of the price increases are related to fundamental concerns about the outlook for physical supplies in the long term.

Traders said Australia may resume normal diesel imports of about 100,000 tons from next month, down from 360,000 tons in June-July, as Western Australia's gas supply slowly recovers from an explosion at the Apache gas plant. Australia is expected to lift 90,000-105,000 tons of diesel in August.

President Hugo Chavez reiterated threats to expel European Union companies doing business in Venezuela because of new immigration rules imposed by the EU. He said EU companies operating in the oil and gas sectors could be asked to leave Venezuela.

The CFTC announced that it will delay the release of its Commitment of Traders report for the week ending July 1 until July 7 due to the July 4th holiday.

June Calendar Averages

CL – 143.28

HO – 404.03

RB – 354.46

US Treasury Secretary Henry Paulson said a weaker dollar cannot be blamed for rising oil prices He said market fundamentals were to blame.

UK Prime Minister Gordon Brown said he is concerned about the impact of surging oil prices on UK consumers. He stressed that while he believed the UK economy was more resilient than when it faced previous oil shocks, efforts should be made to increase oil production and find alternative sources of energy. Britain's Finance Minister Alistair Darling said the price of oil was the real problem and production needs to increase. He said high oil prices were feeding inflationary pressures not just in Britain but also around the world.

US Deputy Secretary Robert Kimmitt said Iranian banks could face further sanctions unless Iran complies with international demand over its disputed nuclear program. He said he was very pleased that the European Union had frozen the assets of Iran's largest lender, Bank Mellī.

According to the Jerusalem Post, western officials said Iran has expressed readiness to freeze its uranium enrichment program in return for the lifting of international sanctions. Earlier, Ali Akbar Velayati, a top adviser to Iran's supreme leader, Ayatollah Ali Khamenei said his recent comments on nuclear talks with world powers did not necessarily mean Iran would accept a proposal from the five permanent members of the UN Security Council and Germany to end the crisis. President Mahmoud Ahmadinejad promised that Iran will never suspend its uranium enrichment. Meanwhile, Iran's top nuclear negotiator Saeed Jalili expressed optimism that nuclear talks could start with world powers but stressed the importance of a package put forward by Iran.

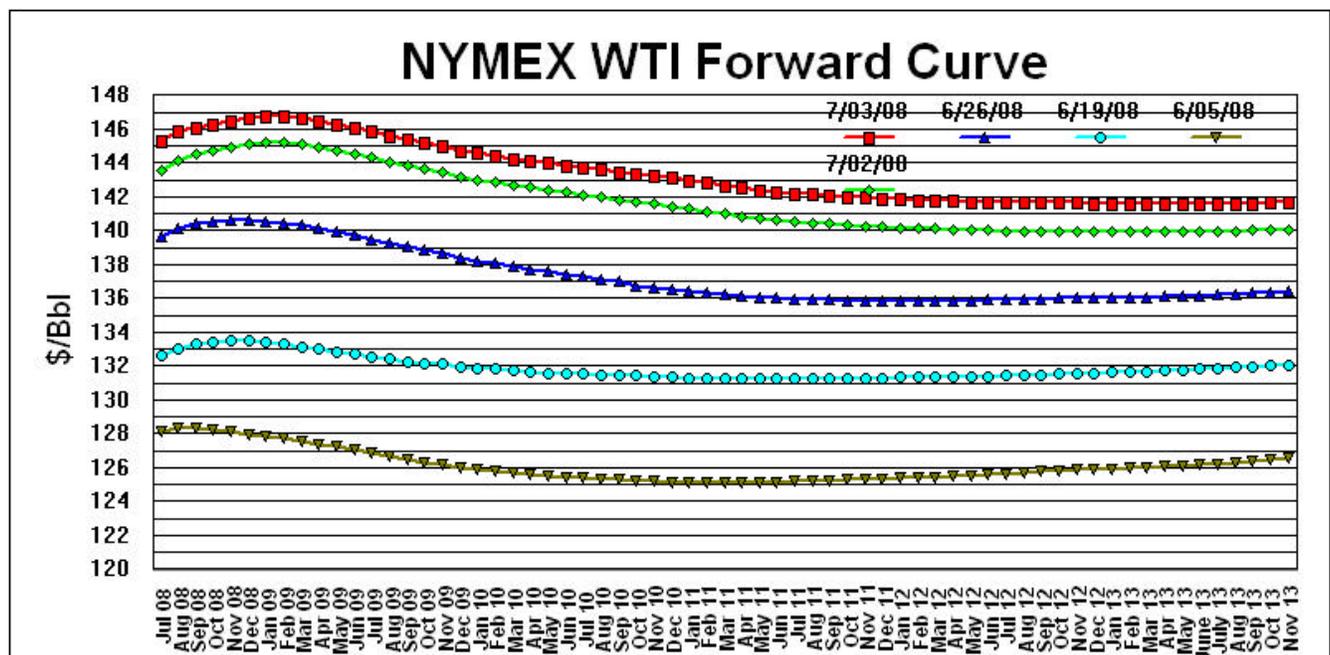
Iraq's Oil Minister Hussain al-Shahristani told lawmakers that short term technical support contracts with oil majors worth about \$3 billion may not get signed due to problems with payment terms. The six no-bid contracts are worth about \$500 million each and are intended to quickly increase Iraq's oil production by 500,000 bpd. The deals are separate from long term development contracts that foreign energy firms are expected to bid for.

The French port authority said French tuna fishermen blocked several access points to France's Fos-Lavera oil terminal in protest at the European Commission's decision to end their fishing season early.

Refinery News

Valero Energy Corp said production at its 139,000 bpd refinery in Wilmington, California was not affected by a shutdown of an underground pipe near the plant.

ConocoPhillips said production would not be affected by a minor issue that triggered unplanned flaring at its 139,000 bpd refinery in Carson, California.



Lyondell said it will start a full scale turnaround of a crude distillation unit and a coker unit at its 270,000 bpd refinery in Houston, Texas in early July.

Sinopec plans to increase its crude runs in July at its Qilu plant by a third from June to 207,200 bpd after the completion of regular maintenance. Separately, an industry source said the Qilu plant may lose about 800 yuan or \$116.80 for each ton of crude it processes in July despite the recent price increase.

PetroChina is cutting its July diesel imports by 50% from June levels to 200,000 tons as the recent fuel price increase encouraged domestic refiners to raise output. Including Sinopec Corp's purchases of 250,000 tons for July, China will import a total of 450,000 tons of diesel.

Singapore's International Enterprise reported that the country's residual fuel stocks fell by 961,000 barrels to 22.54 million barrels in the week ending July 2. It also reported that the country's light distillate stocks increased by 216,000 barrels to 9.24 million barrels while middle distillate stocks increased by 79,000 barrels to 8.571 million barrels on the week.

Production News

According to Oil Movements, OPEC's oil exports will increase by 150,000 bpd to 24.89 million bpd in the four weeks ending July 19. The increase takes exports to their highest level this year, surpassing the previous peak which was 24.85 million bpd in the four weeks ending June 28. The recovery in sailings was almost entirely due to sailings from the Middle East to Asia.

According to a Reuters survey, OPEC's oil production increased to 32.22 million bpd in June from 32.12 million bpd in May. Saudi Arabia increased its production to 9.45 million bpd in June, up 200,000 bpd from May while Iran's production increased by 50,000 bpd to 3.95 million bpd. Falling output in Ngeria and Iraq limited the size of the supply increase, with Nigeria's production falling by 60,000 bpd to 1.8 million bpd and Iraq's production falling 150,000 bpd to 2.29 million bpd.

Suncor Energy Inc said it is unlikely to meet its 2008 production target for its Alberta oil sands operations. It had forecast that production at its site near Fort McMurray, Alberta would average between 275,000 bpd and 285,000 bpd this year. However production in the first five months of the year averaged just 225,000 bpd. To meet its forecast, Suncor would have to produce more than 310,000 bpd from June through the end of December.

Baker Hughes reported that in the week ending July 2, the total rig count in the US increased by 8 to 1,921, up 169 on the year. It reported that 373 rigs were searching for oil, down 2 on the week.

The chief executive of OAO Gazprom, Alexei Miller, said the country's oil production would remain unchanged in the next few years.

Schumberger said the world's fleet of oil rigs capable of drilling in deep waters, which are currently in short supply, will double in the coming years. It said there are about 160 new rigs currently under construction, with 68 of those capable to drill in deep waters.

OPEC's news agency reported that OPEC's basket of crudes increased further to \$137.73/barrel on Wednesday, up from Tuesday's \$136.94/barrel.

Market Commentary

Geopolitical tensions, concerns over future supply, Chinese demand and the recent weakness of the dollar are all stated reasons for the surge in energy prices. Ahead of the long Fourth of July weekend, shorts covered their positions, not wanting to leave too much exposure on the table. Over the long run,

economic conditions in the U.S should have an impact on demand, as U.S. consumers are tightening their economic belts. The U.S. job rate fell for the sixth straight month, with the service industry slipping in June. August08 crude oil topped out at \$145.85, extending yesterday's gains. Coming into next week, we would look for continued upside movement, with intermittent dips. Basis the August 08 contract any bounces off of \$143.35 should be considered buy opportunities as we look for this market to reach the projected congestion objective of \$149.51. Index rolls begin next week and we would look for this activity to add further pressure on the August08/September 08 spread. Our downside target for this spread remains -.95. The August gasoline has finally settled above the \$3.5679 congestion top and should extend higher into next week. The upside target based upon the congestion range of \$3.2997 and \$3.5679 is \$3.8361. Gasoline continues to weaken against the crude oil, with the August08 gasoline crack spread weakening even further. This is the lowest level this crack spread has been since June of 2003, when the value of this spread was as low as \$5.744. For reasons mentioned above in regards to demand, this crack spread could weaken even further. Heating oil attained another record high today, reaching \$4.1350 on the day. Diesel continues to be the driving factor behind this market. Demand from China, as this country prepares for the Olympics and now needs to begin reconstruction after the devastating earthquake, remains high. Although slow stochastics and rsi's, based on the August08 daily bar chart, are in slight overbought territory, they are not setting up for a cross. At this point in time the projected upside objective for this market is \$4.3614. Open interest for crude oil is 1,296,288 up 1,808, August08 279,194 down 9,103, September08 152,740 up 1,380 and December 08 184,504 up 4,897. Total open interest for heating oil is 218,836 down 1,187, August08, 59,080 down 3,909 and September 08, 30,960 up 1,092. Total open interest for gasoline is, 247,929 up 195, August08 73,487, down 2,314 and September, 44,947 up 668.

August Crude Support	July Crude Resistance
143.35, 138.60, 133.70, 131.95, 85.40	145.13, 146.48, 149.41, 150.00
Heating oil support	Heating oil resistance
3.8215, 3.6800, 3.5450, 3.5100, 3.3500, 3.1680, 3.0980	4.2529, 4.3614
Gasoline support	Gasoline resistance
3.4500, 3.3400, 3.3250, 3.3000, 3.1760, 3.0920, 3.0730, 3.0400, 3.0250, 2.9255	3.6345, 3.755, 3.4655