



ENERGY RISK MANAGEMENT

Howard Rennell, Pat Shigueta

& Karen Palladino

(212) 624-1132 (888) 885-6100

www.e-windham.com

ENERGY MARKET REPORT FOR OCTOBER 24, 2008

As expected, OPEC decided on Friday to cut its oil production by 1.5 million bpd as it seeks to rebalance the world oil markets. Defending their decision to cut production amid a world financial crisis, OPEC ministers said they were not responsible for the volatility in the market. Saudi Arabia's Oil Minister Ali al-Naimi said OPEC's cut will help stabilize the oil market. He said the 1.5 million bpd cut would take effect on November 1 while other ministers said it would be effective immediately. He reiterated that the market set the oil price. He added that OPEC has

Market Watch

The White House on Friday declined to comment on the steep decline in stocks prices but warned that it will take time to settle. Following steep declines in Asian markets, the Dow Jones Industrial fell as recession fears increased and traders cited forced selling by hedge funds.

While gasoline prices have returned to levels not seen in a year, the fall in prices is unlikely to trigger a demand surge. According to the AAA, the US average retail price of gasoline has fallen by 30% from its record high of \$4.114/gallon to \$2.822/gallon. Barclays Capital Research said that while it appears that US gasoline demand has ended its descent, at least temporarily, lower prices are not seen increasing demand. Any increase in demand motivated by lower prices will be offset by lower demand due to higher unemployment. Additionally, the extended duration of high gasoline prices has enabled some drivers to switch to more efficient vehicles, reducing the amount of gasoline consumed.

The Transportation Department said US motorists drove 15 billion miles less in August than they did a year ago. It is down 5.6% for the largest monthly decline ever as high gasoline prices and a weak economy cut into highway travel. Over the 10 month period since last November, highway travel fell by 78.1 billion miles on the year.

The chief economist for ConocoPhillips expects world oil demand to increase again within a couple of years.

The chief economist at Deutsche Bank, Adam Sieminski said he expects a sharp increase in oil prices once the economy recovers.

The US House Energy and Commerce Committee asked the US futures market regulator for the names of the trading firms and their clients that were involved in unregulated trading in energy commodity swaps. The committee said it wanted to carefully review the CFTC data and the methods used by the agency to write its report. The CFTC said in a report in September that it could not determine whether speculators were to blame for the run-up in energy prices this year.

China's policymakers are considering cutting domestic fuel prices for the first time in almost two years after oil prices have fallen more than 50%. Industry sources said state-owned oil companies under pressure to fulfill their social obligations have submitted a proposal to cut fuel prices by an undisclosed amount to the National Development and Reform Commission. The NDRC could submit the initiative to the State Council for a final decision as soon as next week.

not discussed contingency plans for another output reduction in case prices continue to fall though he said the group was open to all options between now and its next meeting in December. OPEC's President Chakib Khelil said OPEC could take further action if needed before its next meeting. He

| Member Countries | Previous Quota | Output Cut | New Quota |
|------------------|----------------|------------|------------|
| Algeria | 1,357,000 | 71,000 | 1,286,000 |
| Angola | 1,900,000 | 99,000 | 1,801,000 |
| Ecuador | 520,000 | 27,000 | 493,000 |
| Iran | 3,817,000 | 199,000 | 3,618,000 |
| Kuwait | 2,531,000 | 132,000 | 2,399,000 |
| Libya | 1,712,000 | 89,000 | 1,623,000 |
| Nigeria | 2,163,000 | 113,000 | 2,050,000 |
| Qatar | 828,000 | 43,000 | 785,000 |
| Saudi Arabia | 8,943,000 | 466,000 | 8,477,000 |
| UAE | 2,567,000 | 134,000 | 2,433,000 |
| Venezuela | 2,470,000 | 129,000 | 2,341,000 |
| Total | 28,808,000 | 1,502,000 | 27,306,000 |

said he was not concerned by the continued fall in oil prices after OPEC's decision to cut production and added that it was too early to gauge the impact of the cut. Meanwhile, OPEC's Secretary General Abdalla Salem el-Badri said the group hopes its decision to cut production by 1.5 million bpd is enough to halt the sharp decline in oil prices.

Venezuela's President Hugo Chavez said OPEC should create a price band for crude oil between \$70 and \$90/barrel. He added that his government would not collapse even if oil prices fell to \$7/barrel.

OPEC's decision to cut production sparked criticism with an IEA analyst stating that the decision by OPEC to cut production by 1.5 million bpd is not helpful. He said the size of the cut is too large. The IEA said the cut would worsen the world economic situation. A spokeswoman for the US DOE said OPEC cut showed the group was using energy as a strategic tool. Meanwhile, the White House denounced what it called OPEC's "anti-market" decision to cut production. White House spokesman Tony Fratto said the value of commodities, including oil, should be determined in open, competitive markets. Also, Germany's Economics Minister Michael Glos called on OPEC to not allow the cut in oil production hurt the world economy. He said he hopes the OPEC output cut will not lead to a new price increase and therefore a further burden on the overall declining world economy.

North Atlantic Treaty Organization Secretary General Jaap de Hoop Scheffer called for greater protection of energy infrastructure and transit routes that are vulnerable to disruptions. Participants of a conference on energy security expressed concern that the recession fears could threaten the safety of energy infrastructure.

A Nigerian military spokesman said Nigerian soldiers killed five gunmen after exchanging fire in the waterways of the Niger Delta on Thursday. The fighting was the second major incident in the Niger Delta since the region's main militant group, the Movement for the Emancipation of the Niger Delta, announced a ceasefire last month.

Refinery News

Pasadena Refining said it will shut its fluid catalytic cracking unit at its 100,000 bpd Pasadena, Texas refinery for maintenance work on Friday.

China Aviation Oil Corp Ltd has tendered to buy 171,000-307,000 tons of jet fuel for December, down from 325,000 tons in November.

Production News

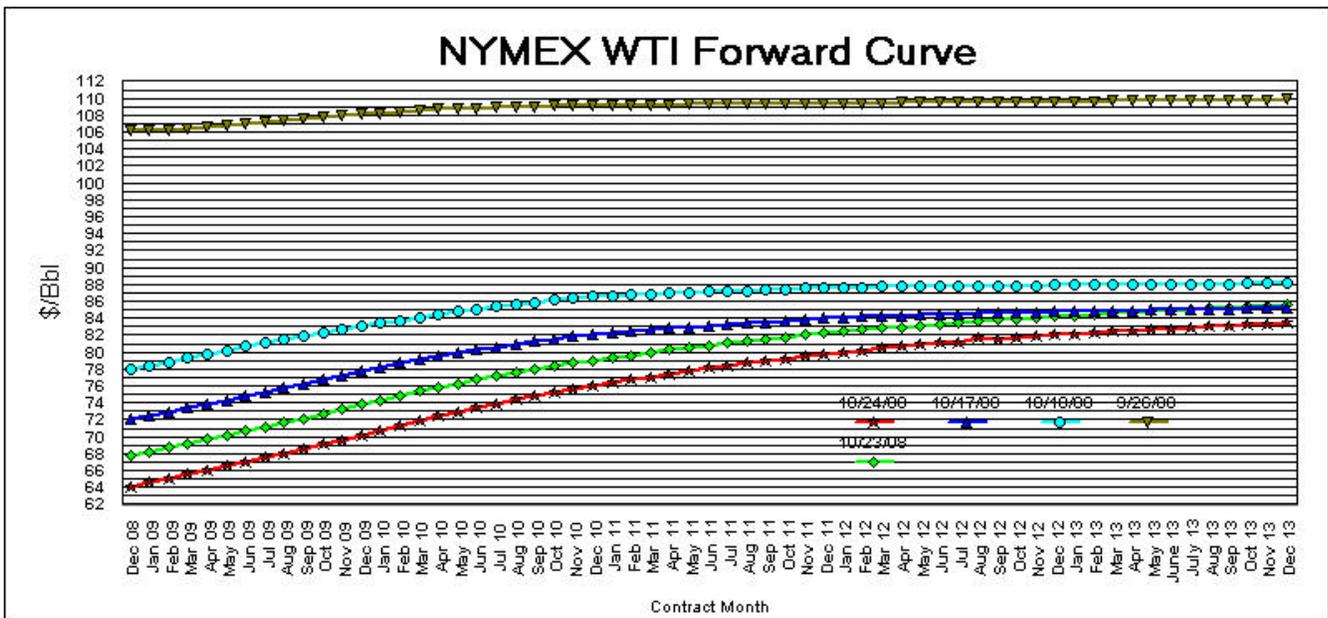
Petro-Canada may postpone indefinitely the upgrader for its Fort Hills development after estimated costs recently increased by 50% to C\$28 billion amid the financial market crisis and declining oil

October Calendar Averages

CL – \$79.86

HO –\$2.3185

RB – \$1.8745



prices. This follows Suncor Energy Inc's decision to delay an expansion project, cutting back Canada's oil sands production. Earlier in the week, Nexen also said it would push back a decision to expand its Long Lake project to next year as it rides out the market volatility.

Venezuela's Oil Minister Rafael Ramirez said Venezuela will announce a licensing round for several oil blocks in the country's Orinoco region this coming week. He said a number of oil companies have shown interest but he would not state which ones. Venezuela's Oil Minister and President Hugo Chavez have stated that they will carry out plans to diversify the country's partners to include companies from Russia and Asia as well as nations in Latin America.

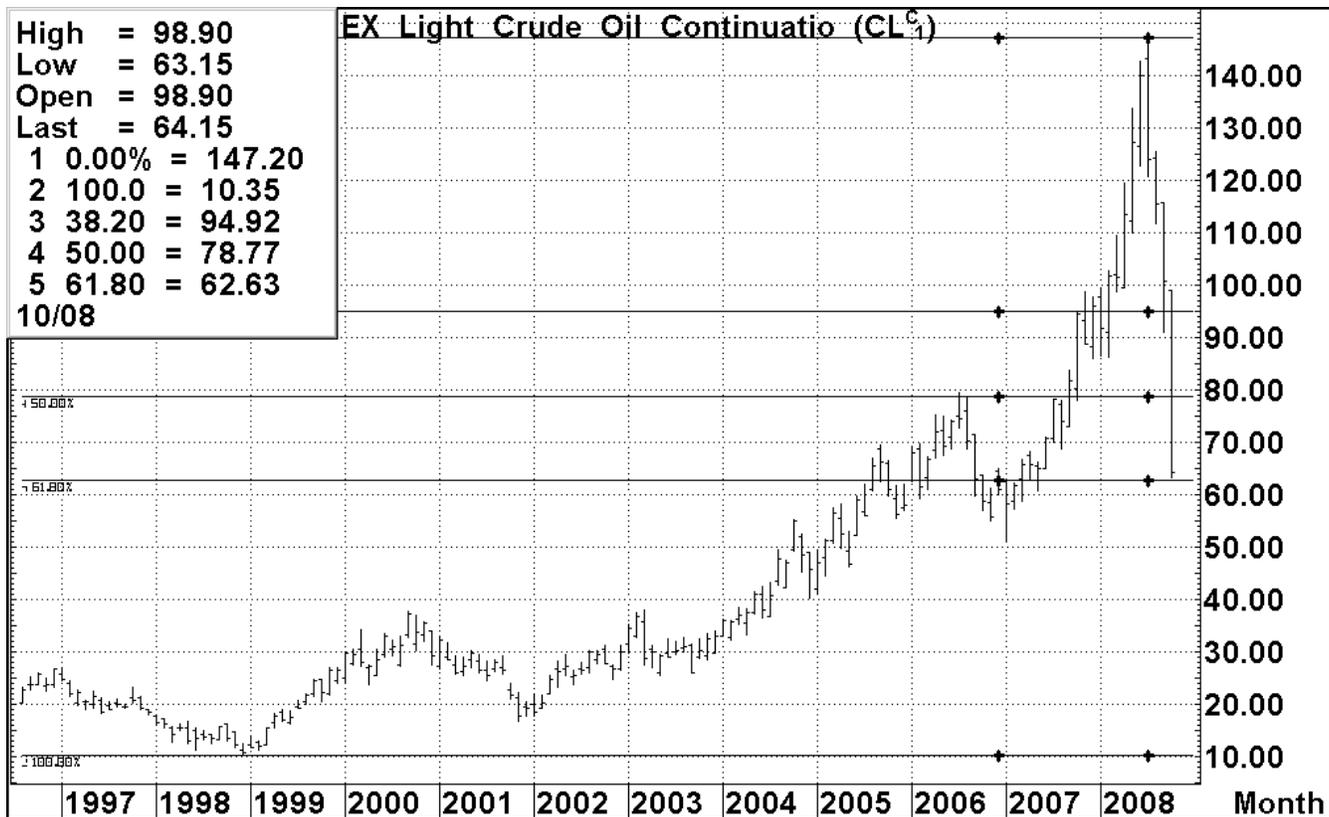
According to Ecuador's Mining and Oil Ministry, the country's average oil production in January-September stood at 505,903 bpd, down 0.43% on the year. The country's total oil production in the first nine months of the year was 138.61 million barrels, down from last year's level of 138.7 million barrels. Petroecuador's production averaged 263,522 bpd in the first nine months while private companies' oil output totaled 242,381 bpd.

OPEC's news agency reported that OPEC's basket of crudes fell to \$60.27/barrel on Thursday from \$60.82/barrel on Wednesday.

Market Commentary

The oil market continued on its downward trend as the weakness in the equities market and concerns about declining demand outweighed OPEC's decision to cut its output by 1.5 million bpd starting on November 1. The crude market

| | | | Explanation |
|----|--|---------------------------------------|--------------------------------|
| CL | Resistance 64.15, down \$3.69 Support | 71.80, 76.04 | Previous highs |
| | | 65.20, 68.77, 69.50 | Basis trendline, Friday's high |
| | | 62.65 | Friday's low |
| HO | Resistance 1.9465, down 8.32 cents Support | 2.0851, 2.1607 | Previous highs |
| | | 1.9735, 1.986, 2.00, 2.026, 2.06 | Friday's high |
| | | 1.922, 1.9111 1.9098 | Friday's low |
| RB | Resistance 1.4779, down 9.99 cents Support | 250.40, 261.19 | Previous highs |
| | | 1.50, 1.5125, 1.54, 1.605 | Friday's high |
| | | 1.471, 1.4545, 1.45 1.3351, 1.2151 | Friday's low |



posted an outside trading day and settled down \$3.69 at 64.15. The market traded to a high of 69.50 in overnight trading before the market erased any of its gains and sold off to a low of \$62.65, a low not seen since the end of May 2007, when the market posted a low of 62.45. The market which seemed to have already priced in an OPEC output cut of 1.5 million bpd, traded lower as the US equities markets opened lower following the losses seen in the overseas markets. The oil market however retraced its losses and settled in a sideways trading range during the remainder of the session as it seemed to hold resistance at \$65.20. The market will continue to seek further direction from the equities market, as the markets remain pressured amid concerns over demand. Technically, the market continues to trend lower with support seen at its low of 62.65, followed by 60.68 and 56.19, basis a trendline. More distant support is seen at 52.73 and 49.90. Meanwhile, the product markets continued to post lower highs and lower lows amid the lack of demand. The RBOB market, which opened at a high of \$1.605, sold off early in the session to a low of 145.00, a level not seen since late January 2007. The market later retraced its losses and traded in a 5 cent trading range from \$1.45 to \$1.50 during the remainder of the session and settled down 9.99 cents at \$1.4779. The market is seen continuing its downtrend as even lower prices are not enough to increase demand. The heating oil market settled down 8.32 cents at \$1.9465 after the market sold off from a high of \$2.06 to a low of \$1.9111. Similar to the rest of the complex, the heating oil market retraced its losses and settled in a sideways trading range. The market is seen finding support at \$1.922, 1.9111 and \$1.9098, basis a trendline.

The latest Commitment of Traders report showed that non-commercials in the crude market switched from a net short position of 1,899 contracts to a net long position of 483 contracts in the week ending October 21st. The combined futures and options report also showed that non-commercials increased their net long position by 16,365 contracts to 69,632 contracts on the week. The funds continued to cut their total short position by 11,407 in the latest week to 107,074 contracts. However non-commercials have likely cut their net long position amid the continued weakness during the past few

sessions while open interest has increased. Meanwhile, non-commercials in the product markets also increased their net long positions. The combined futures and option report showed that non-commercials in the heating oil market increased their net long position by 1,232 contracts to 6,382 contracts while non-commercials in the RBOB market increased their net long position by 4,883 contracts to 26,024 contracts on the week.

The information contained in this letter is taken from sources, which we believe to be reliable, but is not guaranteed by us as to accuracy or completeness and is sent to you for information purposes only. The Windham Group bases its market recommendations solely on the judgment of its personnel. Reproduction in whole or part or other use without written permission is prohibited.