



ENERGY RISK MANAGEMENT

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

www.e-windham.com

ENERGY MARKET REPORT FOR OCTOBER 30, 2008

Venezuela's Oil Minister Rafael Ramirez said OPEC should cut its oil production by 1 million bpd, possibly before its next scheduled meeting in December and added that it should set a minimum price target of \$70-\$80/barrel. He said world oil demand has declined by 900,000 bpd and warned that falling prices would cause oil investment to collapse worldwide. He said OPEC should hold another emergency meeting before December if it becomes necessary.

Iraq's Oil Minister Hussain al-Shahristani said

Market Watch

The US Commerce Department said GDP fell a seasonally adjusted 0.3% annual rate in the third quarter. It is the lowest level since a 1.4% decline in the third quarter of 2001. Despite the third quarter drop in GDP, inflation gauges increased. It reported that third quarter spending fell by 3.1% after increasing by 2.1% in the second quarter. Purchases of durable goods fell by 14.1% in the third quarter after falling by 2.8% in the second quarter.

The US Labor Department reported that initial claims for jobless benefits held steady at a seasonally adjusted 479,000 in the week ending October 25. The unemployment rate for workers with unemployment insurance was unchanged at 2.8%.

Royal Dutch Shell Plc reported a 22% increase in third quarter profit to \$8.04 billion as record crude oil prices offset production cuts in Nigeria and the Gulf of Mexico. While Shell is proceeding with the first expansion phase of its Athabasca Canadian oil-sands project, which should add 100,000 bpd of production, it will delay any further investment due to high construction costs. Shell expects 250,000 barrels of new oil production by the end of next year, helped by winter oil output from its Sakhalin project in Russia's Far East coming on line soon. Its third quarter crude and natural gas production fell by 6.6% and fall to below 3 million bpd of oil equivalent for the first time in more than a decade.

ExxonMobil Corp said it expects to have production growth in 2009 and achieve the estimates it provided earlier this year. It reported an 8.24% decline in third quarter production compared with last year. Excluding the effects of hurricane disruption, maintenance and production sharing contracts, ExxonMobil's quarterly production would have declined about 2%.

Britain's Finance Minister Alistair Darling said the recent fall in world oil prices needed to be passed on to consumers swiftly.

Statistics Canada said falling oil prices caused Canadian producer prices to fall more than expected in September, with prices down 1.2% from August. The price index for raw materials fell by 7.2%.

Chairman and chief executive of the IntercontinentalExchange Inc said that falling oil and commodity prices have driven increased trading during October.

October Calendar Averages**CL – \$77.13****HO – \$2.2520****RB – \$1.8033**

he was not satisfied with current oil prices and added that oil prices will not be allowed to fall. He said Iraq's new 2009 state budget assumes an oil price of \$62/barrel. Iraq has previously assumed an average oil price of \$80/barrel for its spending projections. Meanwhile, Iraq's Finance Minister Bayan Jabor said Iraq has agreed

with the IMF to cut its 2009 budget to \$67 billion from a previous draft of \$80 billion due to the current world economic crisis and falling oil prices.

Oil Movements reported that OPEC's seaborne crude oil exports, excluding Angola and Ecuador, are expected to fall by 50,000 bpd to 24.3 million bpd in the four weeks ending November 15. The drop is smaller than may have been expected given OPEC's decision to cut production by 1.5 million bpd starting November 1.

According to California's State Board of Equalization, the state's gasoline demand fell by 5.6% on the year in July to 30 million barrels. The average price for gasoline in July was \$4.51/gallon, up 42.3% on the year. Meanwhile on-road diesel demand fell by 7.9% on the year to 5.8 million barrels in July. The board attributed the decline to higher prices, which averaged \$4.97/gallon and less freight movement as the economy has been slowing.

The EIA reported that US oil demand in August fell by 8.4% or 1.758 million bpd on the year to 19.267 million bpd, down 975,000 bpd or 4.8% from its previous estimate. Oil demand in the first eight months of the year averaged 19.67 million bpd, down 1.088 million bpd or 5.2% on the year. Gasoline demand averaged 9.09 million bpd in August, down 5.1% or 492,000 bpd on the year. Its previous estimate showed that gasoline demand was down 2% or 189,000 bpd on the year. Meanwhile distillate demand fell by 11.8% or 489,000 bpd on the year to 3.657 million bpd.

Iran started building naval bases along its southern coast and up to the Strait of Hormuz at the entrance to the strategic Gulf oil waterway. An Iranian official said the bases were being built on the Sea of Oman coast from Pasa Bandar, near the Pakistan border, to Bandar Abbas, Iran's major port on the Strait of Hormuz. Iran has opened a naval port at Jask, which is along the Sea of Oman. He said the new mission of the navy is to build an impenetrable line of defense at the entrance to the Sea of Oman.

Russian warships from the Arctic Ocean and the Black Sea will take part in exercises in the Mediterranean. An attack group of the Northern Fleet will meet an attack group of the Black Sea Fleet and carry out bilateral exercises.

China sent a team of officials to Sudan on Thursday to seek the release of kidnapped oil workers in the disputed aftermath of rescue efforts after four Chinese hostages were killed on Monday. Officials from the Foreign Ministry, Commerce Ministry and China National Petroleum Corp left China to negotiate with the Sudanese side on all out efforts and measures of rescuing a worker still missing.

France's Confederation Generale de Travail union said it signed a deal with the government on the implementation of an overhaul of the country's ports, which caused a wave of strikes earlier in the year.

Refinery News

Colonial Pipeline froze shipments for Cycle 62 on its main gasoline line north of Collins, Mississippi as nominations exceed line capacity. Colonial Pipeline also allocated distillates shipment for the 63rd cycle on its main line north of Collins, Mississippi as demand for space exceeds capacity.

The Pasadena Refining Systems Inc reported that its fluid catalytic cracking unit at its 100,000 bpd refinery will restart Thursday after undergoing maintenance. The unit was shutdown on Friday.

Tesoro Corp said there was no impact to production from a process upset on Wednesday afternoon at its 100,000 bpd Los Angeles refinery. Tesoro said it did not shut any units at the refinery.

Maintenance work at Murphy Oil Corp's 125,000 bpd Meraux, Louisiana refinery was completed earlier this week.

Valero Energy Corp has postponed planned maintenance on a 180,000 bpd crude unit at its Delaware City, Delaware refinery until early November. The 25 day turnaround was previously scheduled to start in October.

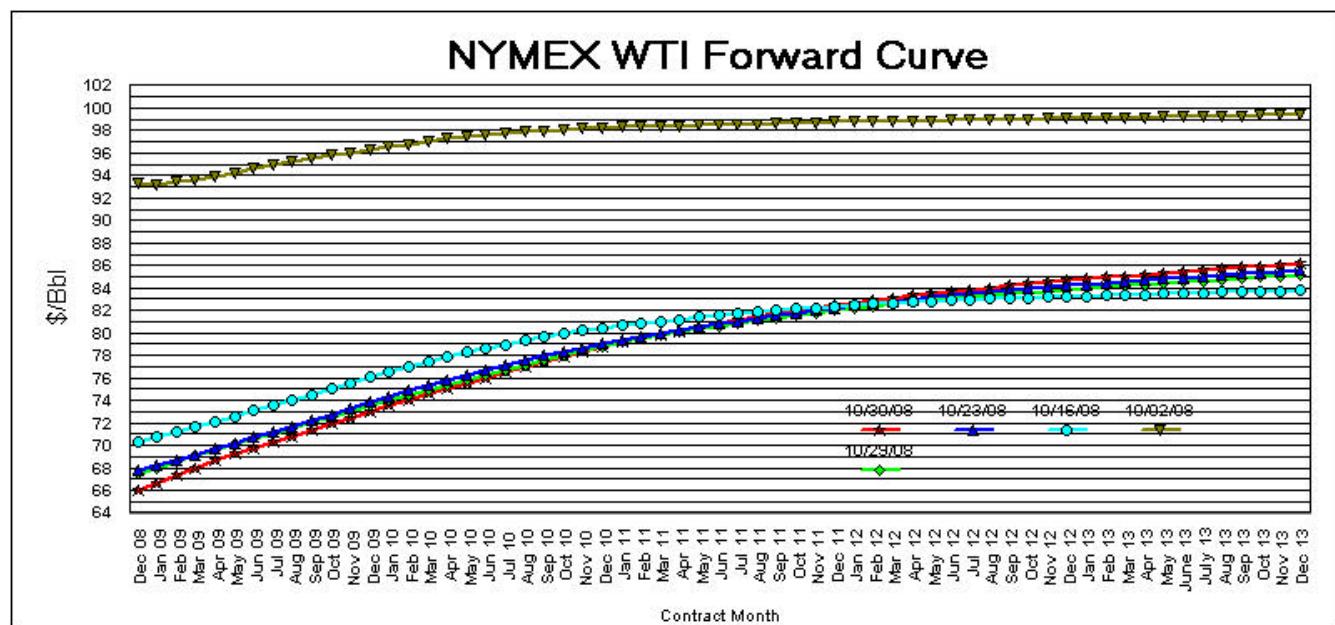
Japan's Nippon oil Corp will cut its crude runs by 13% on the year in November and December if domestic demand remains weak. It plans to refine 4.12 million kl or 864,000 bpd, down 1.3 million kiloliters or 134,000 bpd.

South Korea's SK Energy has shut its 185,000 ton/year naphtha unit since the beginning of the week on falling margins.

South Korea's S-Oil Corp plans to cut its November crude runs to 480,000 bpd from the current 530,000 bpd due to depressed naphtha margins.

South Korea's Lotte Daesan Petrochemical will cut naphtha cracker rates to 70% of capacity from the current 88%.

Gas oil inventories in the Amsterdam-Rotterdam-Antwerp terminal fell by 10.17% on the week and by 6.17% on the year to 1.626 million tons. Outflows of gas oil from the ARA tanks were bound for France and barge markets, such as Germany. Gas oil was imported from France, Russia and Taiwan. Gasoline inventories increased by 0.33% on the week but fell by 9.55% on the year to 606,000 tons while fuel oil stocks increased by 14.17% on the week and by 3.39% on the year to 427,000 tons. Naphtha stocks increased by 24% on the week but fell by 43.12% on the year to 62,000 tons while jet fuel stocks fell by 0.17% on the week but increased by 118.75% on the year to 560,000 tons.

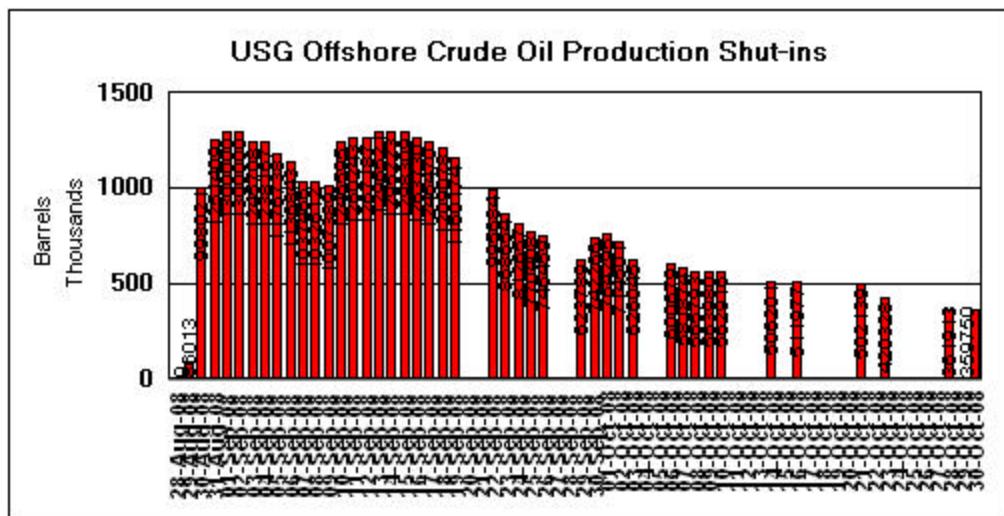


Singapore's International Enterprise said the country's residual fuel stocks in the week ending October 29 fell by 757,000 barrels on the week to 18.323 million barrels. It also reported that the country's light distillate stocks fell by 30,000 barrels to 9.469 million barrels while its middle distillate stocks built by 409,000 barrels to 13.483 million barrels on the week.

BP has booked 90,000 tons of Europe bound gas oil from Japan for lifting on November 11.

Production News

The US Minerals Management Service reported that shut in oil and natural gas production in the Gulf of Mexico continued to return to the market. It reported that 2,163 bpd of crude production returned to market since Tuesday, leaving 359,750 bpd of crude production still shut in as of Thursday. Meanwhile, a total of 2.439 bcf/d of natural gas production still remained shut in on Thursday after 37 mmcf/d of production returned to the market since Tuesday.



Nexen Inc's North Sea Buzzard oilfield resumed operations after a one day shutdown for routine maintenance.

A PDVSA official said Venezuela will cut 50,000 bpd of heavy oil production from its Orinoco belt operations as part of an OPEC cut it agreed to this month.

The Nigerian National Petroleum Corp said the country will reduce crude oil export volumes by 5% in November and December due to OPEC's production cut. It said in addition five cargoes from the November lifting program and 7.6 cargoes from the December lifting program have been cancelled.

Iraq's Oil Minister Hussain al-Shahristani said the country's oil output capacity will increase by 200,000 bpd next year due to measures including the drilling of new oil wells. He said the daily average output this year was 2.3-2.4 million bpd.

Mexico's Pemex said the country is expected to produce an average of 2.7-2.8 million bpd in 2008, about 300,000 barrels less than the 3.1 million bpd originally estimated for the year. It produced 2.755 million bpd in the third quarter of 2008. Separately, a Pemex official said the recently approved energy reform will help Pemex tap deep water oil fields in the Gulf of Mexico by giving the company more flexibility to hire foreign oil companies. However the official cautioned that the energy reform would not immediately resolve Pemex's production woes.

Azerbaijan's Socar announced a tender for 1 million barrels of Azeri Light for loading at the Turkish Mediterranean port of Ceyhan. The shipment would load between December 1 and December 5.

OPEC's news agency reported that OPEC's basket price increased to \$58.13/barrel on Wednesday from \$55.90/barrel on Tuesday.



Crude oil retraced yesterday's gains after a Commerce Department report indicated that gross domestic product contracted at a 0.3 percent annual rate for the third quarter. UBS AG has cut its forecast for oil prices for next year, to \$60 a barrel from \$105 because the global economic slowdown may reduce demand. The global economy continues to overshadow any market fundamentals, as concerns over its impact on demand remain at the forefront of market participant's minds. The shape of the forward curve points to a bear market, further supporting opinions that this market will trade lower. Given this bearish sentiment, we would look for the December/January spread to work towards the ascending trendline, which is set at -0.82. The December contract is trading outside the descending channel based on a spot continuation chart. We would look for prices to continue lower, working back towards this channel, which comes in tomorrow set at \$60.18 - \$42.24. The RBOB market, which bounced off its recent low during Wednesday's session, erased its gains today and settled near its low amid the losses in the crude market. The market posted an outside trading day as it continued to trade higher in overnight trading

to a high of \$1.5887 before it sold off to a low of \$1.44 in afternoon trading. It settled down 6.6 cents at \$1.467. Meanwhile, the heating oil market also posted an outside trading day

			Explanation
CL Resistance 65.96, down \$1.54	71.80, 72.53, 74.30, 76.04, 76.24 66.30, 69.15, 70.60	Previous highs	Thursday's high
	64.95, 64.50, 64.04 63.65, 62.03, 61.30, 60.68, 56.19, 52.73, 49.90	Thursday's low	
HO Resistance 1.9841, down 1.69 cents Support	2.0965, 2.11, 2.19 2.01, 2.034, 2.0555, 2.0803	Previous highs	Thursday's high(Dec contract)
	1.98, 1.97, 1.9486 1.8314	Thursday's low(Dec contract) Basis trendline	
RB Resistance 1.467, down 6.6 cents Support	1.582, 1.6373, 1.7240, 1.7334 1.4695, 1.54, 1.5672	Previous highs	Thursday's high(Dec contract)
	1.4136 1.3864, 1.3351	Thursday's low(Dec contract)	

after the market also sold off from an overnight high of \$2.0555 to a low of \$1.93. The market gave up its previous gains, which were driven by the recent cold snap, as warmer temperatures are forecast to return. On Friday, the product markets however may retrace today's losses and work higher ahead of the November contract's expiration at the close of business. The RBOB market is seen finding support at \$1.4136, \$1.3864 and \$1.3351 while resistance is seen at \$1.4695, \$1.54, \$1.5672 and \$1.582 basis the December contract. The heating oil market is seen finding resistance \$2.01, \$2.0555, \$2.0803, \$2.0965, \$2.11 and \$2.19.

Open interest for crude oil, DEC08 310,825, -14,284, January 09 100,841 +3,831. Totals: 1,066,205 – 6,954. Open interest for heating oil; is NOV.08 7,658 -2,615, DEC.08 58,178 +1,113. Totals: 221,612 +3,009. Open interest for gasoline is, NOV.08 10,679 -3,052, DEC.08 67,262 –1,109, Totals: 159,293 –2,306.

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.