



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR DECEMBER 9, 2008

The head of Libya's national oil company, Shokri Ghanem said OPEC should commit to a substantial reduction in output at its meeting in Algeria on December 17.

Iran has tripled the number of long range rockets in its arsenal. According to a report, Iran possessed 30 Shihab-3 missiles at the beginning of 2008. Currently, the country claims to have over 100 missiles capable of reaching Israel. Its latest build up potentially points to Iran's intent to launch a counter strike against those who seek to destroy its nuclear program.

The EIA reported in its latest Short Term

Energy Outlook, that the current world economic slowdown is now projected to be more severe and

Market Watch

According to a survey released by Barclays Capital, energy products will be the best performing commodities next year. It said a majority of investment funds in North America plan to place at least 10% of their money in commodities over the next three years. About 39% of respondents expect energy to be the top performer, 28% predicted agriculture, 16% predicted industrial metals and 12% predicted precious metals would be the best investment. Its survey showed that 38% of respondents expect oil will average more than \$100/barrel over the next five years, down from 54% in the previous survey while 43% of respondents expect oil will average \$75-\$100/barrel, up from 27% in the previous survey.

Deutsche Bank forecast oil prices will average \$47.50/barrel next year on speculation OPEC may be unable to support the market as demand falls.

China started filling its third government owned strategic crude oil reserve in November, as the country takes advantage of lower oil prices to build its emergency reserve. Industry sources said about 7.3 million barrels of crude was pumped into the storage tanks at the Huangdao base, in Qingdao, adding to the reserves built up last year at China's first two reserve bases. The Huangdao volume, equivalent to about 240,000 bpd, would represent almost 40% of its storage capacity, the third of four strategic petroleum reserves sites that will be able to hold 100 million barrels of oil. More oil is scheduled to be pumped into the storage tanks in December and January.

An adviser to the People's Bank of China said Chinese exports may have declined in November and added that growth in industrial production could have slowed to about 5%. A newspaper reported that preliminary customs data suggest Chinese exports growth in November could have fallen from the year earlier level for the first time in seven years.

The international credit squeeze could undermine the Nigerian government's attempts to move away from its heavy dependence on oil revenues, which account for more than 90% of the country's total revenue. Nigeria's excess crude account has so far helped shield it from some of the worst effects of the international economic crisis, however the budget for the coming year has a deficit of 3.95% or 1.1 trillion naira.

December Calendar Averages**CL – \$44.76****HO –\$1.5207****RB – \$.9971**

longer than it previously reported, leading to further reductions of world energy demand and additional declines in crude oil and other energy prices. World real GDP growth is projected to slow from about 4% in 2006 and 2007 to about 2.7% this year and 0.5% in 2009, down from its previous forecast of 2.5% and 1.8%,

respectively. The EIA reported that world oil demand is expected to fall by 50,000 bpd in 2008 and by 450,000 bpd in 2009. Oil demand is expected to fall for the first time since 1983. It previously forecast that world oil demand would increase by almost 100,000 bpd in 2008 and remain relatively unchanged in 2009. Total world oil demand is estimated at 85.75 million bpd in 2008 and 85.3 million bpd in 2009, down 0.16% and 0.73%, respectively from its previous estimates. Non-OPEC supply is expected to fall by 310,000 bpd in 2008 due to supply disruptions in Central Asia and the Gulf of Mexico and project delays. It projects OPEC crude production will fall from 32.6 million bpd in the third quarter to 30.6 million bpd in the first quarter of 2009. OPEC production is expected to average 30.6 million bpd in 2009, about 1.6 million bpd below 2008 levels. The EIA also reported that OECD inventories are well above historic levels and estimates that they will remain there through the end of 2009. The EIA reported that total petroleum products consumption in 2008 is expected to fall by 1.2 million bpd to 19.48 million bpd, down 0.41% from its previous estimate while demand in 2009 is expected to fall by 200,000 bpd to 19.28 million bpd, down 0.16% from its previous estimate. Gasoline demand in 2008 is estimated to fall by 320,000 bpd to 8.97 million bpd, down 0.44% from its previous estimate while demand in 2009 is expected to fall by 50,000 bpd to 8.92 million bpd, down 0.56% from its previous estimate. Distillate demand in 2008 is expected to fall by 240,000 bpd to 3.96 million bpd, up 0.51% from its previous estimate while demand in 2009 is expected to fall by 70,000 bpd to 3.89 million bpd, down 0.26% from its previous estimate. In regards to prices, WTI prices are expected to average around \$100/barrel in 2008, down from its previous estimate of \$101.45/barrel while prices are expected to average \$51/barrel in 2009, down from its previous estimate of \$63.50 in 2009. Gasoline prices are expected to average \$2.03/gallon in 2009, down from the \$2.37/gallon projected in its previous report. Residential heating oil retail prices this winter are projected to average \$2.53/gallon, down 78 cents from last winter's average and down 22 cents from its previous estimate.

According to MasterCard Advisors' report, US gasoline demand fell by 0.3% to 9.331 million bpd in the week ending December 5. However demand was up 0.3% on the year. It was the first year on year gain in 33 weeks. Demand in the last four weeks averaged 9.23 million bpd, down 1% on the year. It reported that the US average retail price of gasoline fell for the 11th consecutive week by 7 cents or 3.8% to \$1.78/gallon.

The Bush Administration plans one last effort to establish a new five year offshore oil and gas leasing program. The US Minerals Management Service said it will issue a draft proposal covering lease sales for 2010 through 2015 in early January.

Refinery News

Colonial Pipeline Co has again extended shipping restrictions on its Linden, NJ mixed-products delivery line, L2, as current nominations exceed the line's capacity. It previously announced that nominations on cycles 69 and 70 would be allocated.

ConocoPhillips reported maintenance at its 152,000 bpd Borger, Texas refinery aimed at reducing emissions at its fluid catalytic cracking units. Filings to state environmental regulators said about 11 days of maintenance started Sunday on the electrostatic precipitators at its fluid catalytic cracking units No. 29 and 40.

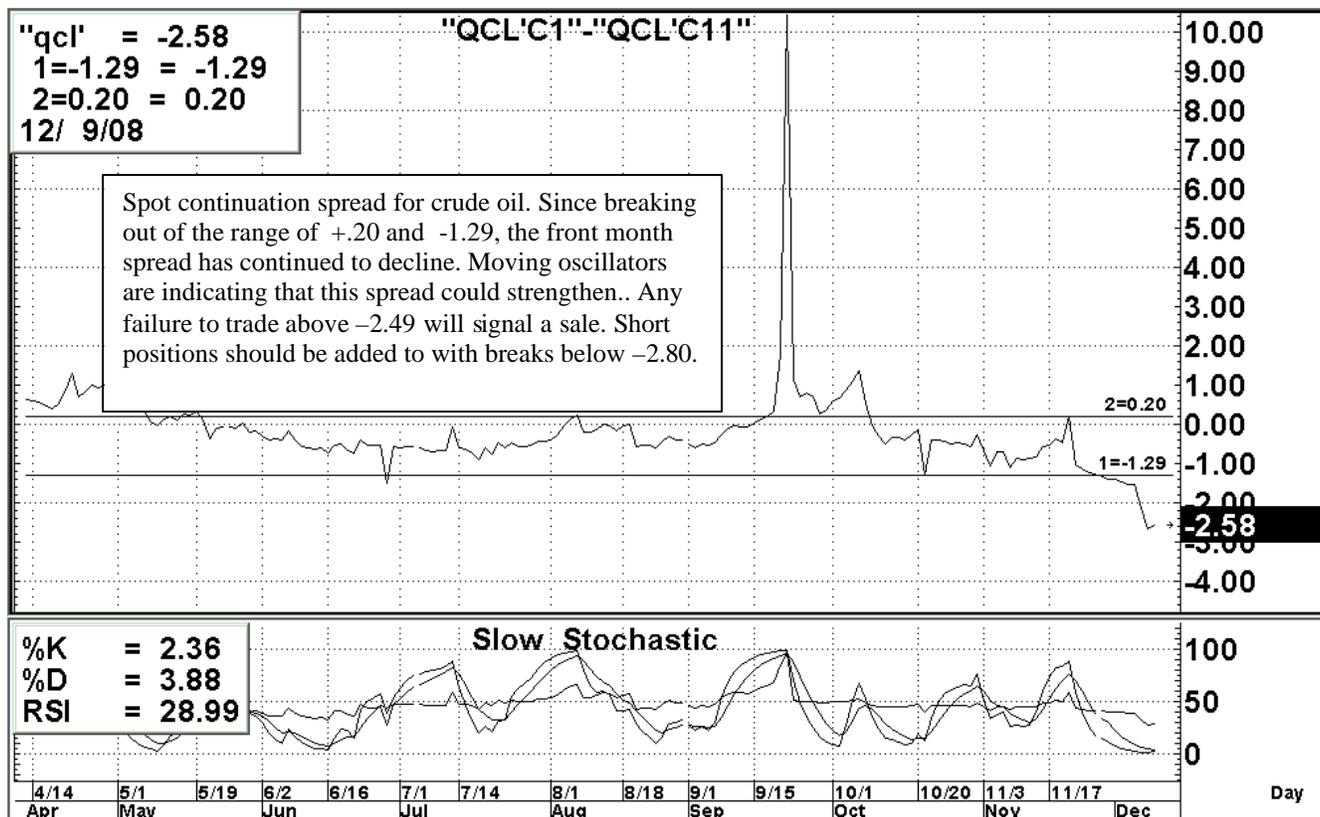
Valero Energy Corp began the restart of its gas oil hydrotreater unit at its Port Arthur, Texas refinery on Tuesday after it was shutdown on Friday due to a leak. It is expected to return to full rates by the

venture in November totaled 253,000 bpd, up from 227,600 bpd reported the previous month but down from 268,900 bpd reported last year.

OPEC reported that the value of its basket of crudes increased by 87 cents to \$37.54/barrel on Monday from \$36.67/barrel on Friday. It also reported that OPEC's basket of crudes fell by \$5.26/barrel to \$40.77/barrel in the week ending December 5th from \$46.03/barrel during the previous week.

Market Commentary

The Energy Department released a report today that said global demand for oil would fall this year for the first time since 1983. The report stated that global demand would average 85.3 million barrels a day in 2009, down 0.5% from current figures. This caused energy prices to retreat from yesterday's higher move. Market participants are waiting on two influential reports, tomorrow's API/DOE report and upcoming OPEC meeting on December 17th. The average estimates for tomorrow's numbers are calling for at build in crude oil of 200,000 barrels, a draw in gasoline stocks of 100,000 barrels and a draw in distillate stocks of 1.3 barrels. More importantly will be the demand numbers, which have been one of the main focuses on this decline in energy prices. Overall the trend remains lower but we would not discount a little bit of a rebound prior to a continuation of the trend. The upside potential for the January contract is \$48.25. The January/February spread gained some strength today and may rebound slightly. Since breaking below the -1.29, the front month spread has continued to weaken, pausing momentarily before heading lower. Currently, this spread is trading between the range of -2.49 and -2.80. We would sell and buy between this range, selling failure to trade above -2.49 and buying failures to trade below -2.80. Should this spread trade above -2.49, we would look to be buyers (buying the January), should it dip below the -2.80, we would consider selling (selling January) it. Gasoline continues to trade above the top of the descending channel basis a spot continuation chart. This channel will begin tomorrow's session set at \$.8279 and \$.7219. f tomorrow's report delivers



bearish numbers, we would look for prices to reenter the channel and work towards the bottom of it.

Open interest: Crude oil (JAN.09 235,923 -32,191 FEB.09 157,896 +18,699 MAR.09 87,833 +6,669 APR.09 46,518 +342 Totals: 1,191,371 -3,162, Heating oil (HO) JAN.09 51,035 -4,430 FEB.09 31,460 +3,957 MAR.09 25,690 +1,752-Totals: 221,805 +1,905 NEW YORK HARBOR RBOB GASOLINE (RB) JAN.09 66,404 -7,495 FEB.09 36,837 +7,005 MAR.09 19,913 +1,280 Totals: 188,977 +2,232

| Crude Support | Crude Resistance |
|-------------------------|--|
| 40.45, 38.20, 36.75 | 46.40, 48.25, 50.07, 52.75, 53.75, 57.23, 60.01, 62.79, 65.56, 67.00, 72.53, 74.30, |
| Heat Support` | Heat resistance |
| 1.3450, 1.3005, 1.1895 | 167.15, 171.85, 176.70, 2.2796, 2.3720 |
| Gasoline support | Gasoline resistance |
| 7760, .6840 | 115.75, 119.90, 121.90, 136.14, 1.8240, 192.85, 2.0270, 2.0690, 2.1400, 2.1980, 2.2865 |

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