



ENERGY RISK MANAGEMENT

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

www.e-windham.com

ENERGY MARKET REPORT FOR DECEMBER 17, 2008

According to OPEC's communiqué, OPEC agreed to cut 4.2 million bpd from September's actual production of 29.045 million bpd to 24.845. It is 2.2 million bpd in addition to its previous decision to cut its production by 2 million bpd. The additional 2.2 million bpd cut will be effective January 1. Saudi Arabia's Oil Minister Ali al-Naimi said the purpose of the cut is to bring the market into balance and avoid the gyrations of the price. Saudi Arabia's historical share of the full 4.2 million bpd cut agreed by OPEC since September, would translate to a cut of 1.318 million bpd to about 8.08 million bpd. Earlier on Wednesday, Saudi Arabia's Oil Minister said the country had cut its production by 1.5 million bpd since August to 8.2 million bpd,

Market Watch

The EIA said the US will fail to meet a federal mandate to blend a large amount of biofuels like ethanol into gasoline by 2022. It said the US will only blend about 30 billion gallons of such fuels by 2022. It is 17% lower than the US mandate of 36 billion gallons for that year.

US refiners, suffering from weak domestic gasoline demand, may see lower diesel demand as European economies falter. In recent months, above average demand for diesel in the US and abroad has provided refiners with a venue for temporary respite, however the profits that diesel has provided may be in decline. Demand is expected to contract in Europe, a key market for US exports and Asian refineries are likely to compete to fulfill the remaining European demand, as their region's own diesel demand declines and new producers come online. This will likely result in a build up of US diesel inventories.

Barclays Capital estimated that commodity assets under management in the fourth quarter fell more than 30% on the quarter to \$144 billion. It said the fall in assets under management in the third quarter was the first since 2003. It said commodity inventors should adopt neutral strategies that allow them to short sell the market when necessary. It believes market neutral strategies will provide the best returns over the next six months.

Morgan Stanley, which reported larger than expected quarterly losses on Wednesday, said earnings for commodities reached all time highs during the year despite reduced exposure to the asset class. It said sales of fixed income, commodities and currencies led to a net revenue of \$3.9 billion for the year ending November 30, helped by record revenues in commodities and foreign exchange.

A senior Russian official said Russia will continue arms sales to Iran because they help foster stability in the Middle East. Citing unnamed sources, RIA Novosti news agency reported that Russia was fulfilling a contract to sell S-300 surface-to-air missiles to Iran, despite previous denials from Moscow of such a deal.

China will continue to levy low import tariffs on coal and fuel oil as well as an export tariff on crude oil next year. China's Ministry of Finance said the import tariff on energy products such as coal and fuel oil will be low in 2009.

The ICE will offer cleared swaps for Mont Belvieu propane and ethane starting January 9, 2009. The swaps will settle against the OPIS average. ICE said it will offer more opportunity to create greater liquidity down the curve and added that additional commodities and locations will be available soon.

meaning Saudi Arabia will cut its production by 200,000 bpd as a result of OPEC's latest agreement.

DOE Stocks

Crude - up 500,000 barrels
Distillate - up 2.9 million barrels
Gasoline - up 1.3 million barrels
Refinery Runs - down 3.3%, at 84.1%

Meanwhile, the US quickly condemned OPEC's decision to cut production further. Venezuela's Energy Minister Rafael Ramirez said Venezuela will cut its production by 189,000 bpd. The White House spokesman Tony Fratto said OPEC has an obligation to keep the market well supplied and to consider the health of the world economy.

OPEC's President Chakib Khelil said he still sees \$70-\$80/barrel as a fair price for oil and wants oil inventories to fall to 52 days of forward demand cover. He said OPEC would not need to make another output decision before its next scheduled meeting in March. In regards to Russia, OPEC's President Chakib Khelil said Russia may become a member of OPEC. Meanwhile, Venezuela's President Hugo Chavez said a fair price of a barrel of oil would be between \$70 and \$90/barrel.

Russia's Deputy Prime Minister Igor Sechin said Russia is ready to cut its oil production by about 320,000 bpd if oil prices continue to fall. However, Russia's Deputy Energy Minister Anatoliy Yanovsky said Russia is not in talks to join OPEC and has not pledged any oil output cuts in its memo to OPEC. Meanwhile, Azerbaijan was the only non-OPEC producer on Wednesday to offer a real output cut to support oil prices. Azerbaijan's Energy Minister Natic Aliyev said the country was ready to cut output by 300,000 bpd to 540,000 bpd. Mexico said it viewed any action to stabilize oil prices as positive but did not offer to cut oil production to support OPEC's efforts.

The head of the EIA, Howard Gruenspecht said the price impact of cuts announced by OPEC will largely depend on how well its members comply and extent of the decline in world demand from ongoing global recession. Separately, he stated that US oil demand is expected to grow only 1 million bpd or 0.2% over the next two decades. Total demand for marketed renewable fuels, including ethanol and biodiesel, is forecast to grow by 3.3%/year until 2030 due to the federal renewable fuel standard and state requirements for utilities to generate more of their electricity from renewable sources.

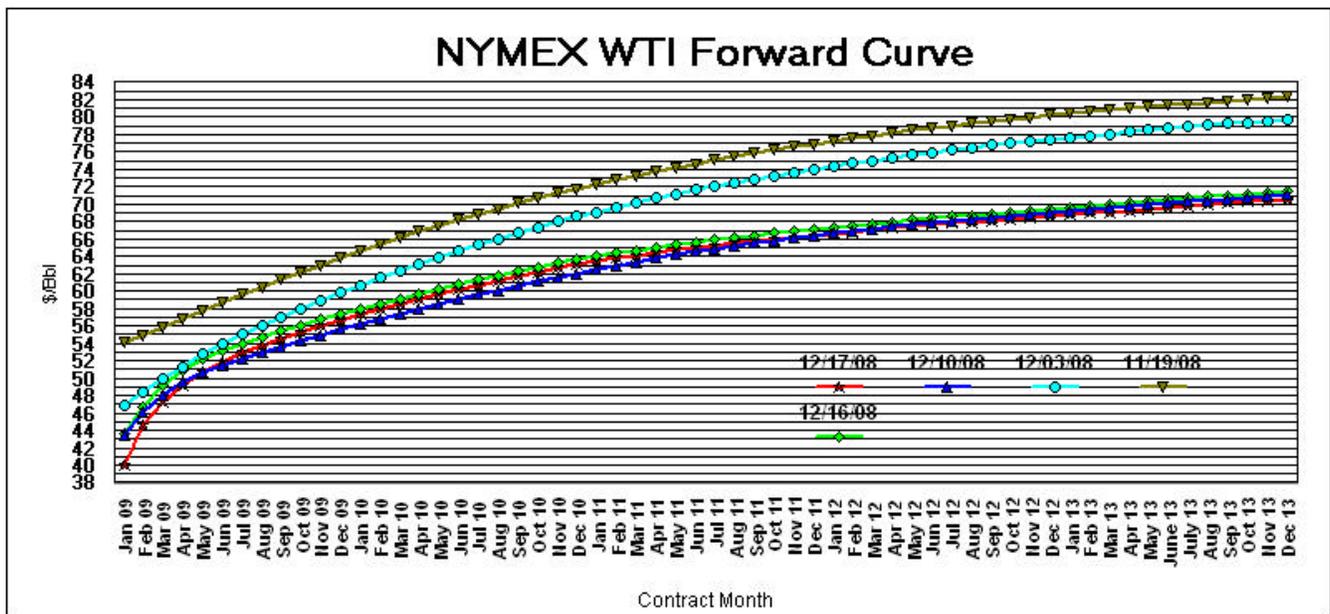
According to the API, US oil and oil product demand in November fell by 7.4% on the year to 19.015 million bpd. It showed that gasoline demand in November fell by 319,000 bpd or 3.5% to 8.91 million bpd while distillate demand fell by 201,000 bpd or 4.9% to 3.873 million bpd. On the supply side, crude oil production increased by 2.5% to 5.143 million bpd. Also, November crude oil and oil product imports averaged 12.935 million bpd, down 1.8% on the year. Total imports in November accounted for 68% of US oil demand, up from 64.1% last year.

Investor T. Boone Pickens said OPEC's decision to cut production by 2.2 million bpd will likely lead to an increase in oil and gas prices and proves that the US must reduce its dependence on foreign oil. He said the US has domestic resources in wind, solar, and natural gas to reduce its dependence on foreign oil. He unveiled the Pickens plan on earlier this year that would help end the US' growing dependence on foreign oil. His plan calls for investing in power generation from domestic renewable resources such as wind and using natural gas supplies as a transportation fuel, replacing more than one-third of imported oil.

Oil workers at Brazil's Petrobras ended a 24 hour strike Wednesday while rural workers staged a protest at the company's headquarters against an oil and natural gas concession auction. Brazil's Oil Workers Federation said a majority of workers returned to their jobs on Wednesday following a one day strike. The Brazilian Petroleum Agency will hold the auction on Thursday and Friday.

Refinery News

December Calendar Averages
CL - \$44.56
HO - \$1.4931
RB - \$ 1.0144



Sunoco Inc shut a fluid catalytic cracking unit at its 160,000 bpd refinery in Toledo, Ohio last Friday for 5-10 days of unplanned work.

Tesoro Corp said it will shut down all the units at its 120,000 bpd refinery in Anacortes, Washington for maintenance early next year due to poor margins.

BP Plc shut an ultracracker unit at its Texas City, Texas refinery to perform maintenance work on a heat exchanger.

According to the Petroleum Association of Japan, Japan's crude oil inventories in the week ending December 13th fell to its lowest level since late September to 105.48 million barrels, down 810,000 barrels on the week but up 11.55 million barrels on the year. Japan's gasoline inventories increased by 470,000 barrels on the week and by 840,000 barrels on the year to 13.96 million barrels while kerosene stocks fell by 450,000 barrels on the week and by 5.97 million barrels on the year to 20.76 million barrels and naphtha stocks fell by 1.43 million barrels on the week to 12.32 million barrels. It also reported that crude runs increased by 40,000 bpd on the week but fell by 480,000 bpd to 4.05 million bpd. Japanese refiners operated their facilities at an average of 82.8% of total capacity of 4.9 million bpd, up 0.9% on the week. Separately, Japan's Oil Information Center reported that Japan's retail regular gasoline prices has fallen to its lowest level since August 2004. The average pump price of regular gasoline in Japan was 114.70 yen or \$1.29/liter or \$4.88/gallon on Monday.

Ukraine's Fuel and Energy Ministry reported that the country's oil and gas refineries processed 9.6 million tons of crude and gas condensate in January-November 2008, down 25.4% on the year. In November, refineries processed 1.06 million tons of crude. Ukraine's Fuel and Energy Ministry also said the country imported 63,500 tons of oil from Iraq in November, increasing its total imports from Iraq to 265,000 tons so far this year. A total of 6.14 million tons of oil has been imported by Ukrainian refineries in the first 11 months of the year, including 5.77 million tons from Russia, 265,000 tons from Iraq and 105,100 tons from Belarus.

Iran's gasoline imports in January are expected to increase by 27% on the year as Iran takes advantage of falling gasoline prices to build inventories. It is expected to import about 136,000 bpd of gasoline in January, unchanged on the month and up from 106,666 bpd last year.

Indonesia's Pertamina has purchased 1.8 million barrels of crude for February delivery.

Production News

According to OPEC, Venezuela's oil production in November stood at 2.3 million bpd, the lowest level for the year. It is down 20,000 bpd on the month.

Italy's Eni has started oil production from the Pegasus field offshore Gulf of Mexico to increase its role in the region. The field is expected to reach production peak of about 5,000 bpd of oil in 2009.

One of BP's Azeri oilfields in the Caspian Sea that was shut in September due to a gas leak may restart at the end of December. In September, a gas leak forced BP to reduce its production at the Azeri-Chirag-Guneshli group of fields.

Separately, BP Plc has agreed with shareholders at Caspian Pipeline Consortium to exit the project.

Russia plans to cut its oil exports by 4.5% or 160,000 bpd in the first quarter of 2009 compared to the fourth quarter of 2008. Russian oil companies are scheduled to export 42.114 million tons or 3.43 million bpd in the first quarter of next year compared with 45.045 million tons or 3.59 million bpd in the current quarter via the system of pipeline monopoly Transneft.

OPEC's news agency reported that OPEC's basket of crudes fell to \$40.74/barrel on Tuesday from \$42.53/barrel on Monday.

Market Commentary

With crude oil inventories building for the 11th time in 12 weeks, the 2.2 million barrel per day output cut by OPEC was pushed to the sideline. Crude oil inventories are running 321.3 million barrels and are in the upper limit of the average range. The price of the January 09 contract dipped below \$40.00 per barrel, making this the first time that crude oil fell below that level in four years. Builds in both the gasoline and distillates added to the pressure on prices, as demand for both of these products remains low. Gasoline inventories built by 1.3 million barrels and distillate inventories increased by 2.9 million barrels. Upon examination of the forward curve, the January contract has pulled further away from the deferred, with the January09/February 09 spread weakening to as low as \$4.83 on the day. This market remains oversupplied and with the front spread being as weak as it is, stockpiling should continue. We would look for the January contract to expire on the weak side, with a test at the \$36.75 level and quite possibly \$32.25. Both of these levels are double bottoms basis a monthly continuation chart. Cold weather helped to lend some support to the heating oil market. The February heating oil crack spread has remained strong, topping the session at \$17.34. As mentioned previously, this spread will gain strength, supported by the predictions for cold weather in the northern part of the United States from now and into the New Year.

Open interest: Crude oil JAN.09 73,440 -33,709 FEB.09 254,362 +19,418 MAR.09 110,920 +4,647
APR.09 52,584 +236 Totals: 1,166,910 - 349 Heating oil (HO) JAN.09 30,051 -1,786 FEB.09 44,035 -
241 MAR.09 29,671 +172 Totals: 223,673 - 461 NEW YORK HARBOR RBOB GASOLINE (RB)
JAN.09 44,446 -1,088 FEB.09 61,742 +861 MAR.09 25,470 +412 Totals: 202,393 + 852

Crude Support	Crude Resistance
39.88, 38.20, 36.75, 32.25	47.50, 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, 120.50, 121.90, 136.14