



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JANUARY 5, 2008

An OPEC official from a Persian Gulf country said OPEC is likely to make all the oil production cuts promised at its last meeting. The official said full implementation of the 4.2 million bpd reduction in supplies will cut inventories below their five year average.

An OPEC source said core OPEC oil producers in the Gulf will ignore Iran's call for Islamic countries to cut supplies to supporters of Israel in response to the Israeli offensive in Gaza. An Iranian military commander on Sunday said Islamic countries could use oil to put pressure on Israel's European and US supporters.

Market Watch

The National Weather Service said US heating demand this week is expected to average 12% below normal. Demand for heating oil is expected to be about 9% below normal this week.

The forward curve of futures contracts traded on the NYMEX suggests oil prices will increase 28% to \$60.10/barrel by December. Twenty-eight of 30 analysts tracked by Bloomberg forecast higher prices by the end of 2009, with a median fourth quarter estimate of \$70/barrel. The curve looks similar as it did 10 years ago, after Russia's default and the collapse of the Long-Term Capital Management LP hedge fund. OPEC cut production by 6.9%, causing prices to more than double in 1999. Recently OPEC pledged to cut supply by 9% while oil companies are postponing new energy projects and central banks are cutting interest rates to the end the world economic crisis. Analysts believe commodities are due for a rebound as the economy is expected to stabilize.

Iraq's Oil Ministry launched a process to qualify more international energy companies to bid for oil and gas contracts as it seeks to more than double its output in the next few years. Last week, Iraq announced a second bidding round for oil and gas fields. The fields announced in the second round could increase oil production by up to 2.5 million bpd in a few years.

India's Petroleum Secretary R.S. Pandey said officials of India's state run oil firms are likely to go on strike starting January 7 to demand higher pay.

Indonesia's President said he was unsure if there would be room for further cuts in subsidized fuel prices. The government has cut subsidized fuel prices twice since December 1 following a sharp decline in world oil prices.

China said electricity demand increased by 5.2% to 3.43 billion Mwh, down 9.6% on the year as the world recession curtailed exports and forced factories to shutdown. Exports fell for the first time in seven years in November while imports fell and manufacturing contracted. Investment in power plants fell 11% to 288 billion yuan or \$42 billion last year. The country may face an energy oversupply within the next two years as the world crisis slows the country's economy.

January Calendar Averages

CL – \$47.58

HO – \$1.5283

RB – \$1.1465

Iran's Oil Minister Gholamhossein Nozari said OPEC members need to show determination to prevent oil prices from falling further. Separately, he said the country's 2009-2010 budget is expected to be based on an oil price of \$37.50/barrel due to the fall in oil prices.

The head of parliament's economic commission Gholam-Reza

Mesbahi said the lower oil price was expected to cause a 33% decline in government revenue in the next budget.

US President George W. Bush said he understood Israel's desire to defend itself, adding any Gaza ceasefire must ensure Hamas militants cannot fire rockets on Israeli towns. Separately, Palestinian Foreign Minister Riyad al-Malki said Arab states plan to propose a new draft for a UN resolution designed to secure a durable ceasefire in Gaza.

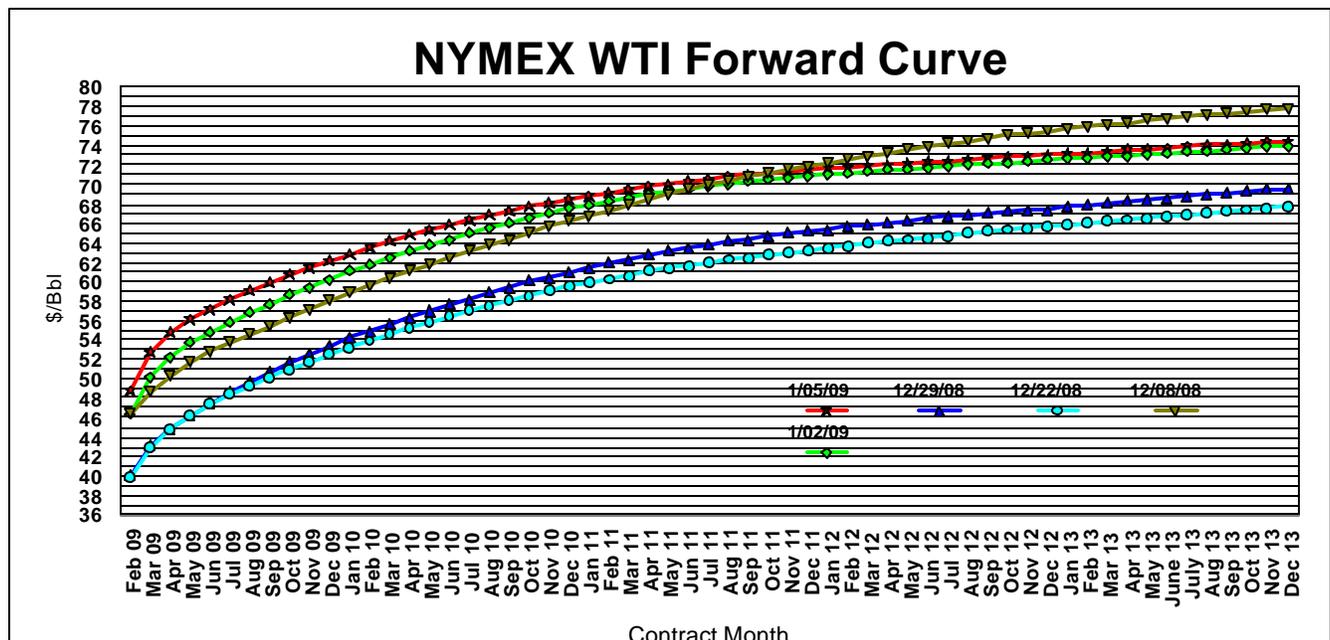
The EIA reported that the US average retail price of diesel fell by 3.6 cents in the week ending January 5th to \$2.291/gallon. The EIA also reported that the US average retail price of gasoline increased by 7.1 cents to \$1.684/gallon.

Refinery News

Credit Suisse said world oil demand is likely to weaken further in 2009, driving some small US refiners to declare bankruptcy and forcing inefficient European refiners to shutdown operations. Declining demand has squeezed margins of companies operating refineries in the US and overseas. Returns on producing gasoline remain negative in part of the US while returns on producing diesel fell by 50% during the second half of the year and are expected to fall further in 2009. Credit Suisse said refiners that continue operating may have to cut planned spending projects.

ExxonMobil Corp reported planned flaring since Friday at its 150,000 bpd refinery in Torrance, California.

Flying J Inc's 70,000 bpd Big West refinery in Bakersfield, California was shut on Saturday. Flying J filed for bankruptcy protection on December 22 and began 10 days of work on its hydrocracking unit on December 30.



China's Maoming refinery will reduce its crude throughput by 3-6% in January from a month earlier due to weakening demand. The 270,000 bpd plant plans to process 1 million tons of crude or 235,5000 bpd in January, down 5.7% from 1.06 million tons or 249,600 bpd in December.

Sinopec has started building a 120,000 bpd crude unit in its Qilu refinery. The new unit would replace a 70,0000 bpd crude distillation unit after it is ready for use by late this year or early next year.

Indonesia's Pertamina plans to restart its 125,000 bpd Balongan refinery on January 5 after resolving problems at its facilities. The refinery was initially scheduled to restart in mid-December following a regular maintenance shutdown which started on October 18.

Taiwan's Formosa Petrochemical Corp is shutting its 700,000 ton/year No. 1 naphtha cracker in phases on January 5 and the unit will be completely offline on Tuesday.

India's Mangalore Refineries and Petrochemicals Ltd is unlikely to renew its term contract to supply gas oil to Iran this year due to differences over premium levels. However MRPL is in talks with Emirates National Oil Co for a one year diesel export deal, which could amount up to 500,000 tons/year. Separately, Singapore trader Hin Leong has secured an adhoc term deal to supply gas oil to Iran from January to March following the news that MRPL is unlikely to renew its term contract.

Production News

Qatar has notified at least two Asian lifters that it will continue to provide them with less crude oil than initially contracted in February. Qatar will cut supplies of Qatar Marine crude by 6% from the contracted volumes in February while Qatar Land supplies will be cut by 3% from the contracted amounts.

Italy's Eni SpA said the closure of a pumping station in Nigeria following a spillage incident had reduced oil production by 12,000 bpd. An Eni spokeswoman could not say how long the pumping station would be halted. An explosion occurred in the Nembe region of Nigeria following attempts to siphon off oil from pipeline illegally. Separately, saboteurs blew up an oil pipeline owned by Italy's Agip in Nigeria's southern Niger Delta late on Friday. It is not clear if there was any impact on production.

Brazil's Petrobras said an accident shutdown operations at its P-34 platform in the Jubarte field late Sunday. The company has not yet determined how long it will take to restart production at the platform. The well has been producing light sweet crude at the rate of between 12,000 and 14,000 bpd.

Iraq resumed its Kirkuk oil exports through its northern pipeline to Turkey over the weekend after exports were halted on Wednesday morning. The pipeline was pumping at about 432,000 bpd. Iraqi oil in storage at Ceyhan stood at about 3.7 million barrels on Monday.

Saudi Aramco increased its official selling prices for February loadings bound for customers in the US. The official selling price for Arab Extra Light bound for the US was increased by \$1.50 to WTI minus \$1.60, its Arab Light was increased by \$2.80 to WTI minus \$2, its Arab Medium crude was increased by \$3.55 to WTI minus \$4.20 and its Arab Heavy crude was increased by \$4.45 to WTI minus \$5.30. Meanwhile Arab Super Light crude bound for Asia was unchanged at the Oman/Dubai average plus \$1.15, its Arab Extra Light crude price was cut by 30 cents to the Oman/Dubai average plus 85 cents, its Arab Light crude price was increased by 40 cents to the Oman/Dubai average minus 45 cents, its Arab Medium crude price was increased by \$1.20 to the Oman/Dubai average minus \$1.90 and its Arab Heavy crude price was increased by \$1.90 to the Oman/Dubai average minus \$3.90. Saudi

Aramco also announced that the price of Arab Extra Light crude bound for Northwest Europe was cut by 70 cents to BWAVE minus \$3.65, its Arab Light crude price was increased by 20 cents to BWAVE minus \$5.45, its Arab Medium crude price was increased by 50 cents to BWAVE minus \$7.20 and its Arab Heavy crude price was increased by \$1 to BWAVE minus \$8.30.

The official selling prices for February loading Iranian, Iraqi and Kuwaiti crude bound for Asia are likely to increase after Saudi Arabia increased the prices of its crudes to the region.

China's CNPC said oil and gas production in its Changqing oilfield in northern Ordos Basin reached 25.2 million tons of oil equivalent in 2008 or 504,000 bpd, up 26% on the year. The company aims to lift oil and gas output in Changqing to 50 million tons of oil equivalent in 2015, replacing Daqing as its largest.

Colombia's oil-licensing agency, ANH said the country's November oil output increased to an average of 624,000 bpd from 556,000 bpd last year. In the first eleven months of the year, average crude oil output totaled 587,000 bpd, up from 531,000 bpd for all of 2007.

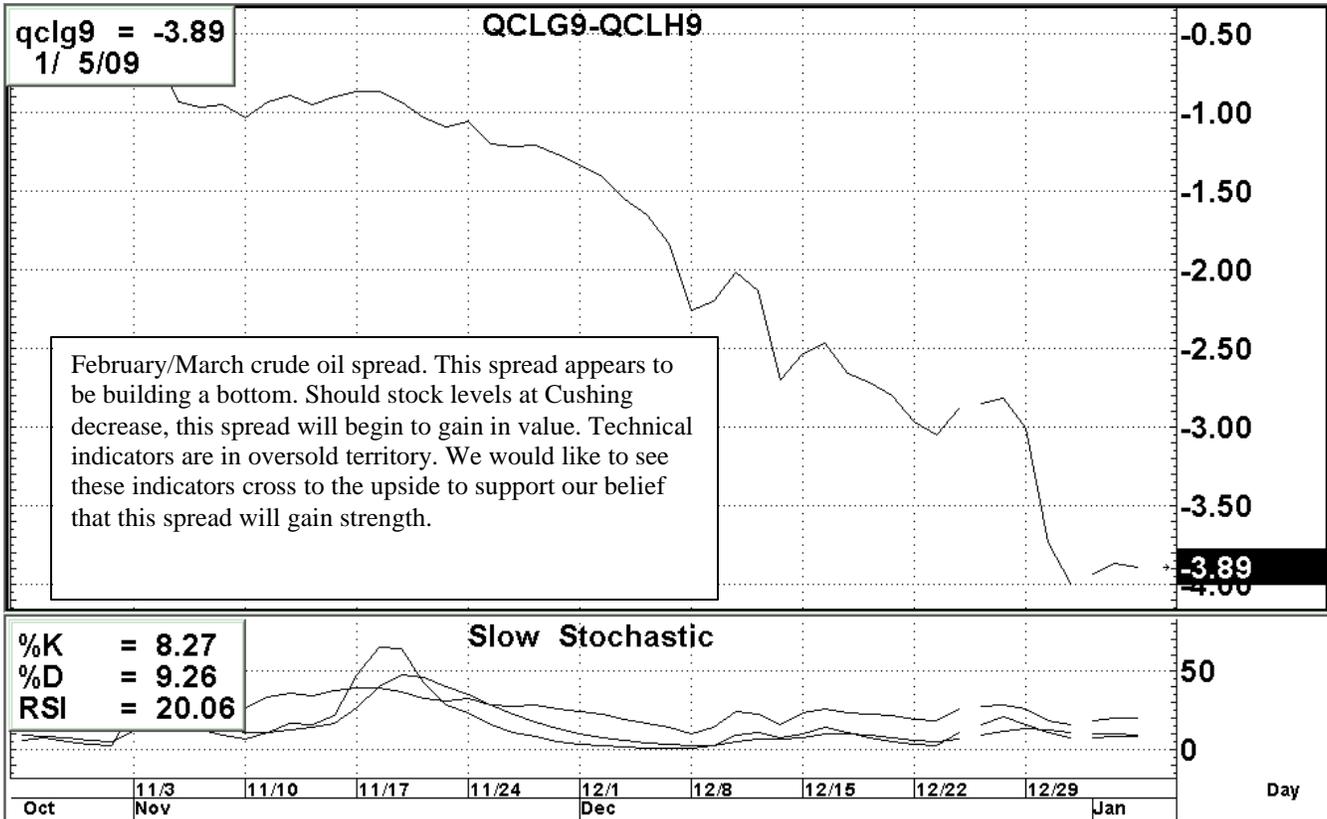
OPEC's news agency reported that OPEC's basket of crudes increased by \$4.37/barrel to \$39.95/barrel on Friday. It also reported that OPEC's basket of crudes increased by \$1.37/barrel to \$36.29/barrel in the week ending January 2.

Market Commentary

Energy markets once again gained strength, after the dollar rose to a three-week high against the euro and advanced against the yen on speculation President-elect Barack Obama's fiscal stimulus will help the U.S. economy recover from recession. Tensions between Israel and Hamas have moved to ground level, heightening supply concerns in that region. There is also a rebalancing of the top index funds taking place, with the percentage of investments into the energy markets expected to grow. Although the forward curve is the steepest it has been in ten years, waning crude oil stocks in Cushing may soon have a supportive impact on its shape. The February crude oil contract peaked on the day at \$49.28, the highest level for the spot month in three weeks. Technical indicators are supportive for this move higher. Given the aforementioned fundamentals and supportive technicals, the February contract should remain on the defense, working towards the \$55.98 resistance level. We would remain cautious in any move higher, until the economy shows signs of recovering. Both heating oil and gasoline outpaced the crude oil markets, gaining on hopes of a recovering economy and its impact on demand. As with the crude oil, we would look for both of these markets to move higher in response to the impending Obama stimulus package. The February gasoline contract is poised for a test up at the \$1.2750 resistance level, with the February heating oil setting up for a test at the \$1.8500 level.

Open interest: FEB.09 286,346 -91 MAR.09 148,974 +3,224 APR.09 61,463 +411 MAY.09 40,815 +414 Totals: 1,193,251 +4,205 Heating oil (HO FEB.09 53,491 -2,603 MAR.09 32,493 -317 APR.09 20,431 -101 Totals: 222,565 -2,752 NEW YORK HARBOR RBOB GASOLINE (FEB.09 80,013 +845 MAR.09 30,817 +953 APR.09 19,915 -219 Totals: 192,522 +1,638.

The latest Commitment of Traders report showed that non-commercials in the crude market cut their net long position by 8,022 contracts to 64,548 contracts in the week ending December 30th. The combined futures and option report showed that non-commercials cut their net long position by 2,132 contracts to 126,108 contracts on the week. The funds increased their total short position by 2,167 contracts to 106,506 contracts. The non-commercials have likely increased their net long position amid the recovery in prices in the past few trading sessions. Meanwhile, the non-commercials in the product markets increased their net long positions with funds in the heating oil market increasing their net long position by 526 contracts to 6,598 contracts and funds in the RBOB market increasing their net long position by 1,220 contracts to 51,477 contracts.



Crude Support	Crude Resistance
34.31, 33.75, 32.25, 29.66, 28.63, 26.65, 25.50	49.54, 50.07, 52.95, 53.75, 57.20
Heat Support	Heat resistance
1.3605, 1.2785, 1.1895	167.15, 171.85, 176.70, 1.8500
Gasoline support	Gasoline resistance
.9669, .8978, .8755, 7760, .6840	120.50, 121.90, 1.2750, 136.14