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ENERGY RISK MANAGEMENT

Howard Rennell, Pat Shigueta,
& Karen Palladino

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

www.e-windham.com

ENERGY MARKET REPORT FOR JANUARY 12, 2009

Saudi Arabia plans to cut its oil production by up to 300,000 bpd below its agreed OPEC quota. Saudi Arabia has so far cut its production in January to 8 million bpd but is prepared to cut its production beyond what is required by OPEC starting in February to 7.7 million bpd.

Iran's OPEC governor, Mohammad Ali Khatibi said OPEC could decide to reduce its crude oil output again at its meeting in March if crude prices fall further. Separately, the head of Libya's National Oil Co, Shokri Ghanem said an early OPEC meeting and additional cut in production

Market Watch

The National Weather Service forecast that US heating demand is expected to average 7.7% above normal as a cold air mass moves into the northern part of the country from Canada. Demand for heating oil is expected to be about 13.7% above normal this week.

Goldman Sachs maintained its forecast that US crude oil futures will recover to about \$65/barrel by the end of the year. It said oil prices have been volatile in the last couple of weeks due to supportive geopolitics, weather and financial drivers on one side and weak underlying economic fundamentals on the other. Goldman Sachs however said that the ongoing market surplus will likely continue to drive inventories higher, putting pressure on prices towards its \$30/barrel target for the first quarter of the year. It said increasing inventories in the short term were bound to lead to a steeper contango and high volatility.

Oil traders are seeking to hire at least five more supertankers this month to store crude at sea, increasing the total amount being stored to 35 days of forward supply for the UK, according to UK newspaper, The Times. At least 25 supertankers are being used to store oil at sea.

President elect Barack Obama is making changes to his two-year economic stimulus program, such as increasing energy tax incentives, after members the Democratic party called elements of the plan inadequate. They said his plan would not do enough to reduce the country's dependence on foreign oil while others called for more infrastructure spending. Senator Charles Schumer said President elect Obama plans to produce an outline of a stimulus package rather than a detailed measure, leaving it to lawmakers to fill in the blanks.

The Conference Board said its Employment Trends Index fell to 99.6 in December from a revised 101.2 in November. It said that during 2008, non-farm employment fell by more than 2.5 million and the sharp declines in the Employment Trends Index suggest that in 2009 this number could increase by another 2 million.

India plans to cut the price of fuel in 10 days, a move analysts said is aimed at pleasing voters and lifting business sentiment ahead of general elections due by May. India cut its diesel prices by 6% and gasoline prices by 10% in early December, its first cut in state-set prices in two years after oil prices fell from record highs in July.

A senior Russian Finance Ministry official said the country may cut its oil export duty to about \$100/ton from \$119.10/barrel starting February 1 to account for lower oil prices.

Iran's Supreme Leader Ayatollah Khamenei ordered that 20% of the country's oil and gas revenues should be set aside for a new investment fund. The order is part of a set of mandatory economic, social and political guidelines to be included in the country's next five year development plan for 2010 to 2015.

January Calendar Averages**CL – \$43.78****HO –\$1.5294****RB – \$1.1203**

cannot be ruled out if the oil markets fail to stabilize. However he expressed confidence that the implementation of the most recent cut would make any new move unnecessary.

Nigeria's special adviser to the president, Emmanuel Egbogah said Nigeria is producing 1.88 million bpd of crude oil after implementing recently agreed OPEC cuts.

The EIA reported that the US retail price of diesel increased by 2.3 cents to \$2.314/gallon in the week ending January 12th. It also reported that the US retail price of gasoline increased by 10 cents to \$1.784/gallon on the week.

According to the Lundberg survey, the US average retail price of gasoline increased to \$1.7793 on January 9th, up 11.71 cents from a survey conducted three years ago.

A divided UN Human Rights Council adopted a resolution condemning Israel's offensive in the Gaza Strip and accusing it of grave human rights violations against Palestinians. The resolution, setting up a mission to investigate Israeli violations against Palestinians, was passed after a split opened up between Western countries and others over the wording. The European Union's representative said the EU could have supported some elements but found the text too one-sided despite its concern about human rights violations in the Gaza Strip. Israel also dismissed the resolution as biased and cast doubt on the council's credibility. The Israeli army said all weapons being used in its Gaza Strip campaign were within the bounds of international law following accusations it was using controversial white phosphorus shells. Under international law, white phosphorus is banned for use against civilians but is permitted if used for creating a smokescreen. Meanwhile, the Hamas government in the Gaza Strip said it was closer than ever to victory in its war against Israel. It also reiterated the leadership's rejection of any plan to deploy an international force in the Gaza Strip within the framework of an eventual ceasefire.

Refinery News

According to Credit Suisse, US refining margins increased last week despite an increase in crude oil prices. US Gulf Coast refining margins increased by 98.9% or \$3.95/barrel to \$7.95/barrel while Midwest margins increased by 80.9% or \$5.11 to \$11.43/barrel. Northeast margins increased by 20.2% or \$1.00/barrel to \$5.91/barrel. West Coast margins increased by 16.6% or \$3.87/barrel to \$27.18/barrel while Rockies margins increased by 38.1% or \$2.67/barrel to \$9.69/barrel.

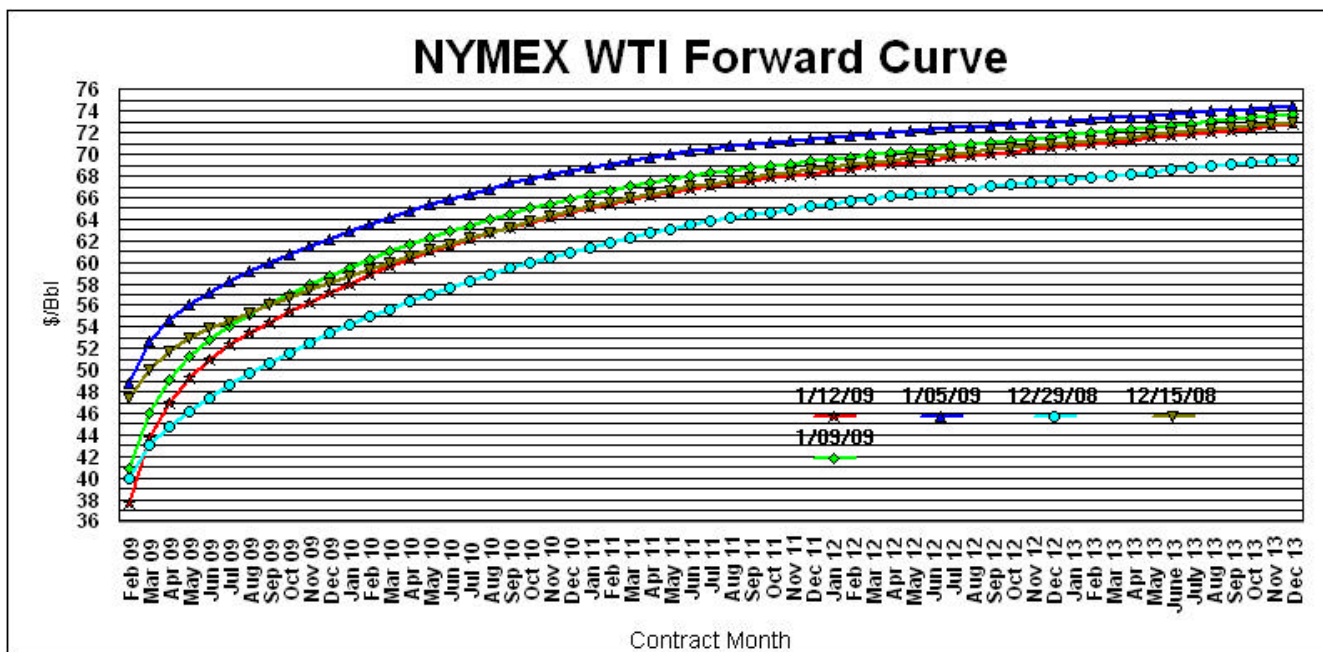
Valero Energy Corp said a snag in a 55,000 bpd fluid catalytic cracking unit at its 170,000 bpd McKee, Texas refinery on Friday was resolved and resulted in no impact to production.

Total SA's 360,000 bpd refinery in Antwerp will shutdown for full maintenance in March until April 4.

Indonesia's Pertamina shut a 12,000 bpd fluid catalytic cracking units at its 120,000 bpd Musi refinery for 17 days of maintenance starting January 8.

Mexico's Transportation Ministry reported that it was forced to shut its Pajaritos and Dos Bocas oil terminals on Monday due to rough seas.

India's crude oil production and refinery runs reached near normal rates on Sunday after oil sector officials ended a three day strike on Friday. The strike was called off after the government took a tough stand and companies dismissed some strikers. Indian Oil Corp's seven refineries were operating at almost full capacity on Sunday except for the 260,000 bpd Koyali refinery at Gujart. Oil and gas production by Oil and Natural Gas Corp was gradually returning to normal.



China's crude oil imports in December increased to 14.37 million tons or 3.38 million bpd, up 11.6% on the year and 4% on the year. Its imports in December would bring China's annual imports to a record high of 178.89 million tons or 3.58 million bpd, up 9.6% on the year. Meanwhile estimates show that China's net diesel exports in January are expected to increase to 50,536 bpd, the second highest level since 2005, as it skips imports for the second consecutive month. China's top refineries are expected to cut their production in January to 2.24 million bpd, from 2.25 million bpd in December.

Oil supplies to Russian refineries, excluding those of Gazprom, fell by 5% on the year to 18.668 million metric tons in December.

Production News

Euroilstock said total oil and oil product inventories in December fell by 0.2% on the month and by 0.3% on the year to 1.111 billion barrels. Total oil inventories fell by 0.6% on the month and by 0.7% on the year to 473.11 million barrels while gasoline inventories increased by 1% on the month but fell by 9.9% on the year to 120.62 million barrels. Middle distillate stocks fell by 1.6% on the month but increased by 2.6% on the year to 360.7 million barrels while fuel stocks increased by 3.8% on the month and by 1.5% on the year to 117.98 million barrels. It reported that the refinery utilization rate was 90.09% in December, down from 90.66% in November and 94% last year.

The North Sea Troll oil stream is scheduled to load 218,000 bpd in February, up from 198,000 bpd in January. Norway's North Sea Statfjord crude oil stream is scheduled to load 214,000 bpd in February, down from 221,000 bpd in January. The North Sea Gullfaks crude oil stream is scheduled to load about 244,000 bpd in February, down from 331,000 bpd in January.

Denmark's DUC crude oil stream is scheduled to load about 150,000 bpd in February, down from 174,194 bpd in January.

Russia's oil production fell to 9.66 million bpd or 40.87 million tons in December 2008, down 1.6% from 9.82 million bpd in November. Oil production for all of 2008 stood at 9.87 million bpd or 491.481 million tons, down by 0.9%. Meanwhile, Russia's crude oil exports via pipeline monopoly Transneft increased by 17.9% to 4.36 million bpd or 18.4 million tons.

Russia's Rosneft expects to increase its oil and gas condensate production by 2% in 2009 to 112.3 million tons or 2.26 million bpd. The increase is mainly expected due to accelerated production drilling.

Oman's Oil Minister Mohammad bin Hamad al-Rumhy said the country is targeting crude oil production of 800,000 bpd in 2009, up from its current production of 750,000 bpd. Separately, Sudan's Oil Minister al-Zubeir Ahmed Al-Hassan said the country is targeting average oil production of about 500,000 bpd in 2009, up from its current production of 450,000-460,000 bpd.

Kazakhstan's Energy Minister Sauat Mynbayev said the country increased its 2008 crude oil and gas condensate production by 4.8% on the year to 70.6 million tons or 1.4 million bpd. It has previously stated that it will produce 79.2 million tons of oil and condensate in 2009.

OPEC's news agency reported that OPEC's basket of crudes fell further to \$41.92/barrel on Friday from \$42.13/barrel on Thursday.

Market Commentary

The global economic situation continues to dominate the energy markets. Pledges of output cuts by OPEC are doing little to hold up the price of a barrel of crude oil, which has tumbled more than \$100.00 per barrel since making record highs in July. Russia and Ukraine signed an agreement that is expected to begin the flow of natural gas to Europe, adding further downside pressure on prices. Demand across the globe is expected to decrease by 1 million barrels a day, with most of this decrease coming from Europe, Japan and the United States. This is the fourth straight session that the price of crude oil has come off and technically; there is more room to the downside. The front of the forward curve continues to take a nosedive as stock levels at Cushing, OK are at record highs. With the deep discount to own prompt barrels of crude oil, stock piling of crude oil will continue, as long as storage and credit is available. Even if this situation changes, due to storage capacity or credit issues, the crude oil market will be flooded with prompt supply. With this in mind, the front month spread, which is currently February/March, should continue to sustain additional pressure. We would look for this spread to test the expiration level of the January/February spread, which was \$-8.49. With this week's API/DOE numbers calling for more builds, we would look for further downside movement. Based on a weekly spot continuation chart, there is support set at \$32.86. Last week, we stated that we were looking for gasoline cracks to gain strength off of the Russian/Ukrainian situation, which they did. Now that this situation appears to have come to a head, gasoline cracks may give up some of their gains. The March09 gasoline crack spread is approaching the \$4.50 resistance level with technical indicators in over bought territory. Should technicals turn or the aforementioned resistance level hold, we would look to sell this crack.

Open interest FEB.09 192,028 -15,721 MAR.09 241,479 +34,320 APR.09 73,866 +4,223 MAY.09 49,578 +3,633 Totals: 1,222,229 +34,328 Heating oil (HO) FEB.09 43,132 -3,065 MAR.09 38,568 +2,905 APR.09 24,748 +767 Totals: 228,789 +3,315 NEW YORK HARBOR RBOB GASOLINE (RB) FEB.09 57,204 -9,578 MAR.09 49,314 +8,145 APR.09 21,627 +1,035 Totals: 195,283 +2,426.

Crude Support	Crude Resistance
34.31, 33.75, 32.25, 29.66, 28.63, 26.65, 25.50	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	1.2750, 136.14

