



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JANUARY 28, 2008

OPEC said speculation was the principal driving force behind rising oil prices and volatility. It said that while it increased its crude supply in response to perceived shortages and accelerated capacity expansion plans, it had little or no influence over speculation. OPEC ministers are scheduled to meet on Friday to decide whether to change current output targets.

Nigeria's Minister of State for Petroleum Odein Ajumogobia said Nigeria saw no reason for OPEC to change its agreed oil output at its next meeting on February 1. He said Nigeria was concerned about the risk that high oil prices would depress world oil demand.

Iraq has temporarily halted its crude exports through a pipeline from its northern fields to Turkey's port of Ceyhan and plans to pump intermittently to discourage saboteurs. Exports were halted on Friday after it had just restarted on Wednesday. Storage tanks at Ceyhan held about 400,000 barrels of Kirkuk crude earlier on Monday.

The chief commander of Iran's Revolutionary Guard warned the US that it was Iran's natural right to retaliate against any attack by the US. He however sought to reassure Iran's Arab neighbors that they would not be targeted in any future conflict.

Jan Calendar Averages

CL – 93.10
HO – 256.46
RB – 236.83

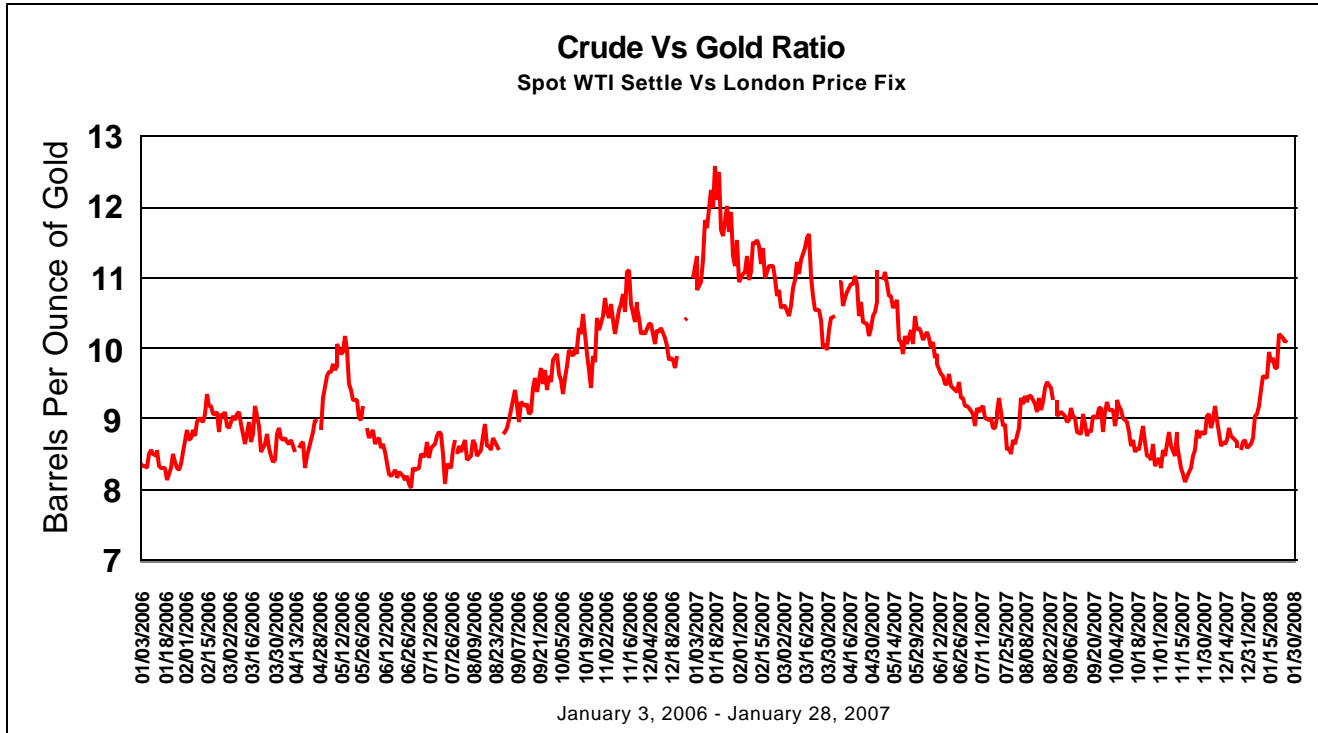
Market Watch

The National Weather Service forecast that US heating demand would be nearly 14% below normal in the week ending February 2 as warmer weather returns to the northern states. Demand for heating oil is expected to average about 15% below normal this week.

Traders said investors were shifting their bets towards oil prices weakening in the near future as the slowdown in the US economy cuts energy demand growth. The reversal in investor mood is reflected in the buying of \$80 put options. The outstanding number of put options for June 2008 has increased by a factor of four in the past two and half months to more than 47,000 contracts. Meanwhile, the outstanding number of June \$100 call options contracts has declined by 25% since last November.

Kuwait's Prime Minister Sheikh Nasser al-Mohammad al-Sabah said he was confident that the country's legislature would pass a long delayed plan to explore northern oilfields with the help of foreign companies. The plan has been delayed for years by lawmakers who say the plan could give foreign firms control over the country's oil wealth. Kuwait plans to increase its capacity to 4 million bpd by 2020.

A US Treasury Department official urged Turkey to be vigilant in its financial dealings with Iran. The Treasury's undersecretary for terrorism and financial intelligence called on Turkey to scrutinize actions by three Turkish branches of Iran's state-owned Bank Mellat. US officials said Bank Mellat serves Iran's Atomic Energy Organization.



The head of Iran's national gas company, Reza Kasaizadeh said Iran would gradually resume its gas exports to Turkey starting overnight on Sunday to Monday after Iran cut flows partly because cold weather increased domestic demand. Iran normally exports 30 million cubic meters/day of natural gas to Turkey.

The EIA reported that the US average retail price of diesel fell by 1.1 cents/gallon to \$3.259/gallon in the week ending January 28. Prices have declined 3.5% or 11.7 cents in the past three weeks as crude prices have eased on growing inventories and concerns over a slowdown in the US economy. The EIA also reported that the US average retail price of gasoline fell by 4 cents to \$2.977/gallon on the week.

According to the Lundberg survey, the average price of gasoline in the US fell to \$2.98/gallon due to less demand and slightly lower oil prices. It was down 9.43 cents/gallon in the past two weeks.

Refinery News

Oil refining margins increased the most sharply for refineries running US crude over the past week. Margins at US Gulf coast refineries cracking WTI crude recovered for the fourth consecutive week, rising \$1.25 to \$4.22/barrel last week. US refiners in the same region running Brent saw their margins increase by 63 cents to \$3.23/barrel last week. Margins for complex refineries with Brent crude in Rotterdam area were \$2.98/barrel last week up by 35 cents from the previous week.

Valero Energy Corp said that some units at its 275,000 bpd Aruba refinery were operating following a fire in a vacuum unit on Friday. It however stated that there was still no timetable for restarting the

refinery. Separately, Valero said it was on track to resume full rates at its 170,000 bpd McKee refinery by the end of January. A fire in February 2007 damaged a propane deasphalter, cutting rates then to 50,000 bpd.

Total has scheduled maintenance work at its 352,000 bpd Antwerp refinery in Belgium in May. It is expected to shut some secondary refining units, cutting 100,000 bpd of refining capacity. The maintenance is expected to last 30-35 days.

Iran has halted its crude exports to South Korea's SK Energy, in protest over what it says is an illegal deal between Korean firms and the Kurdish regional government. Iraq has stated that deals signed with the KRG in northern Iraq lack central government approval and are illegal. Iraq suspended a contract to export 90,000 bpd to SK Energy on January 1. Iraq has given the company until January 31 to back out of the deal if it wants exports to resume. Separately, South Korea's Prime Minister Han Seung-soo said the country would diversify its sources of supply. He said South Korea needed to strengthen its diplomacy with key energy suppliers, including Africa, Latin America and Russia.

South Korea's Hyundai Oilbank is expected to extend its cuts in crude processing to March due to poor refining margins and would shutdown a crude distillation unit for routine maintenance in May. It is expected to cut its March crude processing rates to 320,000 bpd, down 20,000 bpd from levels in February.

Indian refiners processed 13.06 million tons of crude oil in December, up 2% from 12.81 million tons a year earlier. Crude oil production in December fell by 1.5% to 2.88 million tons.

Russia's Black Sea port of Novorossiisk reduced shipments of oil to 44.29 million tons in 2007, down 6.44% on the year. Its oil products shipments increased by 9.27% to 9.24 million tons.

Production News

An official at China's economic cooperation bureau of the National Development and Reform Commission said the country was finding it increasingly difficult to ensure supplies of coal, power and oil and to meet transport demand. He also said China was finding it difficult to meet its targets for saving energy and reducing pollution.

Libya has cut the February official selling price of Essider crude by 10 cents/barrel to dated BFOE minus 70 cents.

OPEC's news agency reported that OPEC's basket of crudes increased to \$87.05/barrel on Friday from Thursday's \$84.58/barrel.

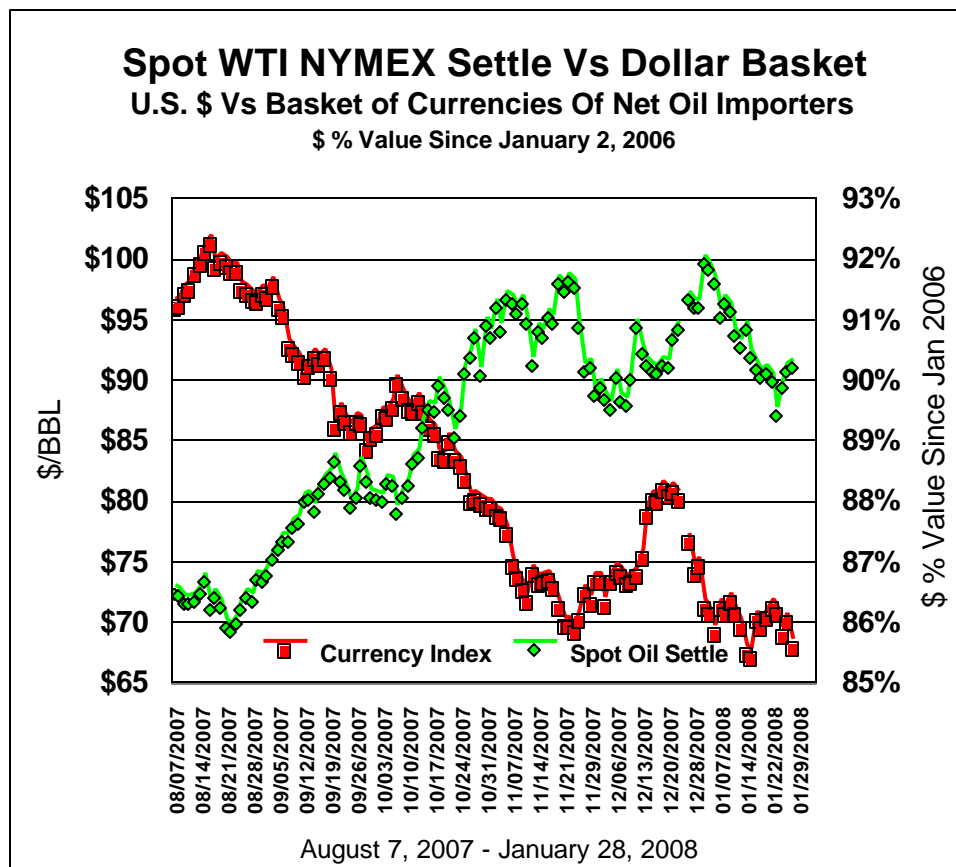
		Explanation	
CL	Resistance	91.66, 92.57, 94.05, 94.30, 95.75, 99.77, 100.15	Previous high, 50%(99.77&85.37), High, 62%, Previous highs
	Support	91.36, 91.38	Double top
HO	Resistance	89.80, 88.78	Monday's low
	Support	88.07, 87.01, 86.55, 85.90, 85.37, 85.25, 82.60	Basis trendline, Previous lows
RB	Resistance	253.74, 255.78, 257.75, 260.50, 261.76	High, 38%(274.75& 240.75), high, 50%, high, 62%
	Support	253.40	Monday's high
RB	Resistance	233.70, 235.59, 237.79, 239.84, 244.09, 244.40	Previous high, 38%(257.85&221.83), high, 50%, 62%, high
	Support	233.40	Monday's high
		232.00, 230.40, 227.99	Monday's low
		223.17, 222.70, 221.83, 221.45, 215.25, 214.78	Basis trendline, Previous lows

Gazprom said it increased its growth targets for the US gas market as the company continued with its strategy of controlling its gas all the way to western European consumers. Gazprom's British unit said the company wanted to grow its presence in the British commercial gas market tenfold by 2011.

Market Commentary

The strength in today's market can be attributed to expectations of another rate cut by the Federal Reserve this Wednesday and statements from within OPEC that output cuts may be in order if the global economic outlook doesn't improve. The March crude oil contract continued to trade above the top of the downward channel, dipping once to test its \$88.72 top. With the March contract settling above the 38.2% retracement of \$90.90, using the recent low of \$85.42 and high of \$99.77, we would look favorable on prices pending news regarding another rate cut by the Federal Reserve. Our near term objective is the \$91.65 resistance level with a possible test of \$92.60. Based on this, we would look to buy dips at the listed support. Open interest in crude oil is 1,343,1536 up 7,609, March08 380,924, up 4,297 and April08 93,270 down 2,587. Meanwhile, the heating oil market posted an outside trading day. The market sold off to a low of 246.80 amid the profit taking seen in the crude

market early in the session. The heating oil market however bounced off its low and rallied to a high of 253.40 ahead of the close. The market retraced almost 38% of its move from a high of 274.75 to a low of 274.75. It settled up 74 points at 252.65. Similarly, the RBOB market sold off to a low of 227.99 early in the session. However the market bounced off that level and never looked back. The market retraced most of its losses and rallied to a high of 233.40 ahead of the close. It settled up 71 points at 232.53. The markets are seen remaining rangebound ahead of the Wednesday's release of the weekly petroleum stock report and the Fed



announcement. The heating oil is seen finding support at 249.75 and 246.80 followed by 243.60, basis its trendline, 243.25, 242.00, 240.75 and 238.84. Resistance is seen at 253.40, 253.74, 255.78, 257.75, 260.50 and 261.76. In the RBOB market, support is seen at 232.00, 230.40 and 227.99. More distant support is seen at 223.17, 222.70, 221.83, 221.45, 215.25 and 214.78. Resistance is seen at 233.40, 233.70, 235.59, 237.79 followed by 239.84, 244.09 and 244.40.

