



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR MARCH 17, 2008

US Vice President Dick Cheney said crude oil prices in excess of \$100/barrel reflect the reality in the market. He said he did not see a lot of excess production capacity worldwide. He said there was an increase in demand from countries such as China and India and added that countries that used to produce oil primarily for export were now consuming a larger part of what they produced as their economies developed.

OPEC President Chakib Khelil said oil markets were rising due to speculation and the US dollar's decline. He added that the increase was not due to a lack of oil production. A senior OPEC delegate also stated that the weak dollar and the flow of investment money

Market Watch

Former Federal Reserve chairman Alan Greenspan in remarks published in Financial Times stated that the current crisis could turn out to be the worst since WWII. He said the current crisis would end eventually when home prices stabilize. Over the weekend, the Fed announced a series of emergency measures intended to ease the credit crunch and calm nerves as investors fled to apparent safety in the euro and commodities such as oil and gold.

Separately, the Federal Reserve stated that US industrial production fell 0.5% in February after increasing 0.1% in January. The capacity utilization rate fell to 80.9% in February from 81.5% in January.

The National Weather Service forecast that US heating demand would be 5.5% below normal this week amid the mild temperatures over most of the northern states. Demand for heating oil is expected to be nearly exactly normal this week.

CME Group Inc on Monday finalized a definitive agreement to buy NYMEX for about \$9.4 billion. The terms of the deal remained unchanged from CME's original bid on January 28 while the overall price fell from the original \$11 billion offer due to the fall of CME's stock price. The combined company would continue to operate a trading floor in New York City as long as certain revenue and profit targets are met. Separately, the CME reported that MF Global was in good standing and that all other clearing members also continued to meet their obligations. MF Global's share price fell sharply on Monday amid market rumors of possible problems meeting margin payments.

Separately, the NYMEX also announced that all NYMEX clearing members, including MF Global and Bear Stearns Securities Corp continued to meet all of their obligations to NYMEX and remain in good standing. This follows the bailout of Bear Stearns over the weekend, in which JP Morgan Chase bought out the investment bank for \$2/share.

The NYMEX announced that it would launch a New York Harbor ethanol futures contract on March 30 for trade date March 31. The contract would be available for trading on CME Globex electronic trading platform and for clearing on NYMEX Clearport. It would be listed for 36 consecutive months, beginning with the May 2008 contract.

The NYMEX trading floor and NYMEX trading on CME Globex will be closed for Good Friday, March 21. NYMEX trading on Globex will reopen on Sunday at 6PM.

Lehman Brothers said signs the US would soon respond to global warming and a new climate pact now under discussion are set to drive the carbon market further in the next two years. Several states in the US have recently moved to choose carbon trading, instead of carbon taxation.

March Calendar Averages

CL – 106.35

HO – 298.45

RB – 265.79

into commodities have pushed oil prices to a new record. Meanwhile, the OPEC governor of the UAE said OPEC had no plans to hold an extraordinary meeting before the next scheduled meeting in September. He said OPEC does not react to oil price movements when fundamentals are balanced.

During a closed door meeting of the IEA to discuss the factors behind the explosion in oil prices, the IEA said that an absence of accurate data from China and India were complicating demand calculations. It said the lack of data transparency hindered the understanding of oil price formation. Other topics included the price differences between less desirable heavier grades of oil and lighter grades and the future of oil being priced in dollars.

The Petroleum and Natural Gas Workers Senior Staff Association of Nigeria, or Pengassan, may begin an indefinite strike on March 19 to protest job cuts. It said it may withdraw its members from the entire petroleum sector. The union said layoffs by Mobil Nigeria Plc were unlawful and targeted union officials working at the company.

Iran announced that it would ease gasoline rationing for the next month during holidays, allowing consumers to buy gasoline above the imposed limit but at a higher price. The rationing rules allow drivers to buy 120 liters/month at a subsidized price of 11 cents/liter. However for the Iranian New Year's holiday, Nowruz, they would be allowed to buy above that level at a price of 44 cents/liter.

The EIA reported that the US average retail price of diesel increased by 15.5 cents to a record level of \$3.974/gallon in the week ending March 17. It also reported that the US average retail price of gasoline increased by 5.9 cents to \$3.284/gallon on the week.

Goldman Sachs said the long term supply constraints should make any fall in prices due to a recession in the US only temporary. It said there was potential for a significant pull back amid a US slowdown, financial market gyrations and a seasonal increase in oil supplies due to the end of winter and oil refinery shutdowns for maintenance.

Refinery News

Ship traffic resumed along the Houston Ship Channel on Monday after dense fog reduced visibility and halted ship traffic earlier. The US Coast Guard said six ships were waiting to enter the channel and six vessels were waiting to exit the waterway on Monday morning.

Credit Suisse said refining margins fell in four of five US regions last week as crude oil reached record highs. Margins in the Midwest increased by \$4.32 to \$10.28/barrel while margins fell on the US Gulf Coast, the West Coast, the Rockies and Northeast. Margins in the US Gulf coast fell by \$1.90 to \$8.18/barrel while margins in the West Coast fell by \$2.09 to \$16.38/barrel. Margins in the Rockies fell by \$1.78 to \$11.07 while margins in the Northeast fell by 68 cents to \$7.09/barrel.

All processing units, with the exception of a fluid catalytic cracking unit, at ConocoPhillips' Bayway, refinery in Linden, NJ were shut over the weekend for maintenance. The refinery units are expected to restart on March 28.

Shell's joint venture 334,000 bpd Deer Park, Texas refinery returned its 70,000 bpd fluid catalytic cracking unit to full capacity by Sunday afternoon. Its return to full production from a two month overhaul was delayed on March 10 to fix a leak that was discovered when the unit was restarting.

Valero Energy Corp said it was running its fluid catalytic cracking unit at its 210,000 bpd Delaware City, Delaware refinery at reduced rates during repairs to an associated boiler. The unit should resume planned rates in about a week.

ExxonMobil Corp's 150,000 bpd refinery in Torrance, California filed a notice on Monday of planned flaring on Tuesday and Wednesday. The planned use of the giant safety flares to burn off hydrocarbons is not related to an equipment breakdown.

According to the US Department of Commerce, US ethanol imports increased 139% on the month in January, reaching 21.32 million gallons. Ethanol from Brazil remained out of the market in January as the arbitrage window was shut. Imports from Costa Rica totaled 5.38 million gallons while the US Virgin Islands supplied 4.61 million gallons.

Royal Dutch Shell said that operations at its 98,000 bpd Scotford refinery near Edmonton, Alberta had returned to normal after repairs were completed to the oil sands upgrader that supplies the facility.

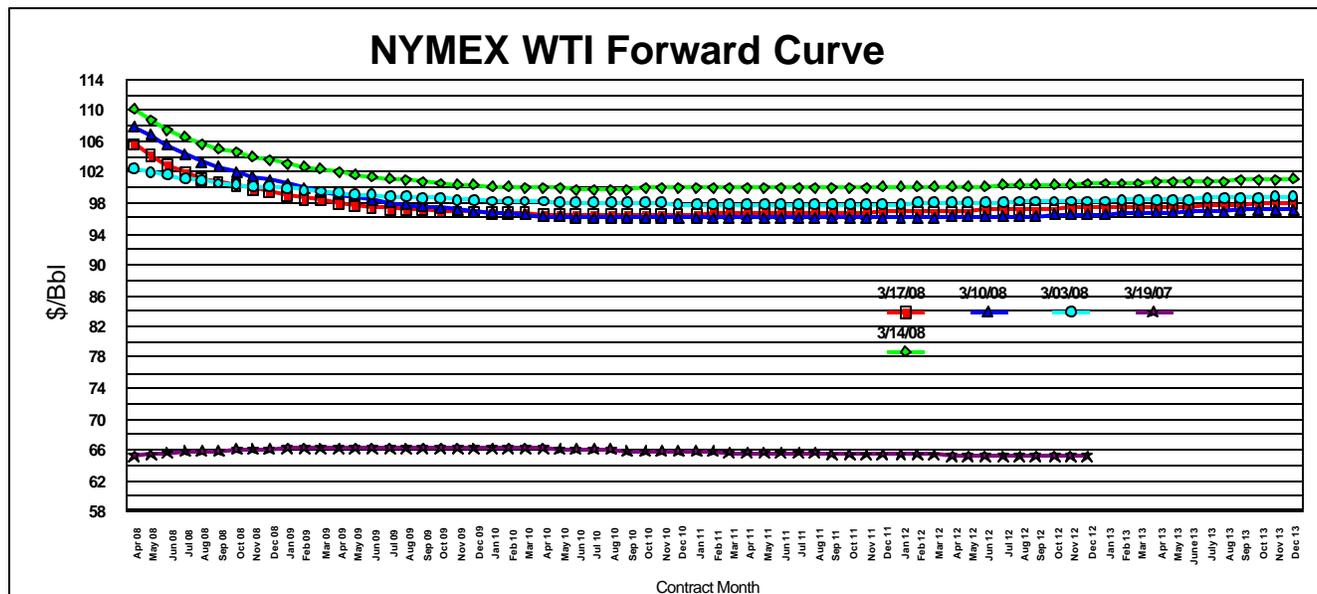
Iraq's Baiji refinery restarted production on Monday, a day after a power outage halted operations. It was operating at about 50% of its capacity after electricity was restored late Sunday.

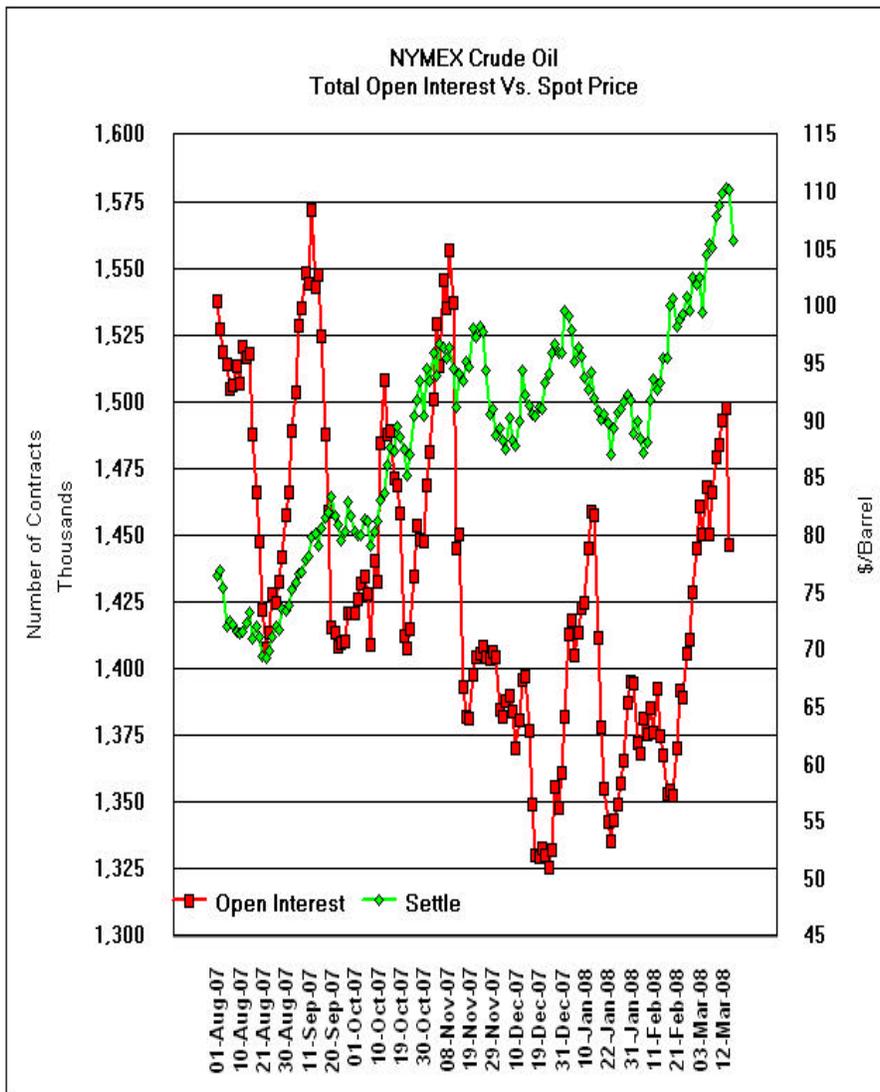
Iraq halted pumping of Kirkuk crude through its northern pipeline to Turkey on Sunday due to a minor breakdown. However pumping was expected to resume soon. A shipping source said Kirkuk oil in storage at the Turkish terminal of Ceyhan stood at about 2.8 million barrels.

Chevron Corp is planning to perform maintenance work at its 210,000 bpd Pembroke refinery in Wales in October. Traders said the refinery planned to close its 90,000 bpd fluid catalytic cracking unit for between three and four weeks.

Saudi Aramco said it had no plans to exit more overseas refining ventures following the sale of its stake in the Philippines' Petron Corp last week. Saudi Arabia was in the midst of a program to increase oil production capacity to 12.5 million bpd next year from 11.3 million bpd. It has also announced plans to increase domestic refining capacity by as much as 1.6 million bpd from its current capacity of 2.098 million bpd.

Total said some 100 cubic meters of fuel oil leaked into the Loire River while a ship was being loaded





at its 231,000 bpd Donges refinery in western France. The refinery's operations were not affected.

According to Germany's MWV, total sales of oil products in Germany increased by 13% on the year in February to 6.17 million tons. Its reported that heating oil sales increased by 39.7% to 1.78 million tons while diesel sales increased by 11.2% to 2.34 million tons and high sulfur fuel oil sales fell by 7.8% to 470,000 tons. It reported that Germany's gasoline sales increased by 0.6% to 1.58 million tons.

Indonesia's Pertamina said that high oil prices were likely to prompt more Indonesians to use subsidized gasoline, increasing demand by 6% to 18 million kiloliters or 113 million barrels in 2008. Separately, Pertamina's president said that company would import oil products according to domestic demand.

The China Petroleum and Petro-Chemical Industry Association stated that the country wanted up to 40% of its oil and gas imports to come from Africa in the next 5-10 years.

According to preliminary customs data, China's diesel imports fell to 330,000 tons in February from a near record 841,637 tons in January. Gasoline exports increased to 130,000 tons in February from 63,565 tons while imports totaled 46,879 tons. Fuel oil imports in February increased to 1.72 million tons, up from 1.5 million tons in January.

China Petrochemical Corp said China's fuel demand may increase 8% this year as the country's manufacturing hub, Guangdong, restarts oil fueled power generators to ease shortages. Fuel demand increased by 7.3% to 192 million metric tons in 2007.

Production News

According to a Saudi official, Saudi Arabia continued to produce about 9.2 million bpd of crude, which is about 300,000 bpd above its formal OPEC quota.

The National Iranian Offshore Oil Co said Iran increased its crude production from its offshore oilfields to 723,000 bpd in the year ending March.

Iran's Oil Minister Gholamhossein Nozari said Iran's oil production reached 4.203 million bpd, the highest level since its 1979 Islamic revolution. The previous record was 4.184 million bpd in February.

Venezuela's Oil Ministry said it planned to focus this year on producing more oil from the country's western region. It said it would open more wells and use more drill equipment in these areas, with production expected to reach an average of 937,000 bpd, up from 907,000 bpd in 2007. The ministry said Venezuela would drill 485 new wells and would repair another 374 oil wells.

Kazakhstan's KazMunaiGas said it expected its oil production to increase to about 12 million tons this year from 10.6 million tons in 2007.

Royal Dutch Shell Plc said it agreed with Nigeria's government on a plan to resolve the funding shortfalls in their joint venture. Separately, Royal Dutch Shell's chief executive Jeroen van der Veer said it was hard to understand record high oil prices given that there were no major supply bottlenecks. In regards to its reserves, it said its net oil and gas reserves were stable in 2007. It added 1.4 billion barrels of oil equivalent of resources, increasing its total resources base to about 66 billion boe. Total net reserves were 11.9 billion boe at the end of 2007, in line with the level at the end of 2006. It also stated that it was considering Pacific, US and Canadian destinations for future new production in Alberta's oil sands. A final decision would depend on regulatory and economic circumstances.

Angola is set to export 1.853 million bpd of crude oil in May, up by about 1,500 bpd on the month. Angola's output is pegged at about 1.915 million bpd for May.

Ecuador's Central Bank reported that the country's oil product export revenues in January increased by 239% to 107.93 million from 31.84 million reported last year. It exported 1.55 million barrels in January, up 50% from 1.03 million barrels exported last year.

OPEC's news agency reported that OPEC's basket of crudes increased further to \$102.88/barrel on Friday from \$102.39/barrel on Thursday. It reported that OPEC's basket of crudes increased by \$4.05/barrel to \$101.34/barrel in the week ending March 14.

Market Commentary

Crude oil prices sank as much as \$7.00 today as fears of a recession overshadowed a weakening dollar. Hedge funds pulled their money out of commodities today in a decision to shift investments into a safer haven. A lower than expected industrial production number aided investors in making their decision to move money from commodities to treasuries. A clearer view is one that the sinking economy will negatively impact demand. Adding further to this lower move is an expected build of 2.3 million barrels in crude oil stocks.

		Explanation	
CL	Resistance	111.80, 112.58, 116.13	Basis trendline
	105.68, down \$4.53	110.35, 110.92	Monday's high
	Support	104.00, 103.90, 103.23	Monday's low
		102.85, 102.07, 101.52, 99.55, 99.07, 98.85	Previous low, 38% (86.34 and 111.80), lows, 50%, previous low
HO	Resistance	322.20, 326.06	Basis trendline
	306.84, down 7.81 cents	308.25, 312.00, 315.00, 319.00	Monday's high
	Support	298.67	Monday's low
		296.25, 294.85, 292.39, 290.45, 283.18, 273.97	Basis trendline, low, 38% (244.16 and 322.20), low, 50%, 62%
RB	Resistance	274.35, 275.56, 280.00	Previous highs
	250.42, down 18.52 cents	256.20, 263.25, 269.70, 273.55	Monday's high
	Support	246.55	Monday's low
		242.37, 238.14, 238.07	Previous lows

Based upon the May contract, April expires on Thursday, prices traded below the upward channel only to settle within this channel. We would look for a test at tomorrow's channel bottom, which comes in at \$104.64, with a top at \$112.13. Slow stochastics have crossed to the down side in overbought territory. Technically this market should continue to correct itself, aided by negative fundamentals. Heating oil once again was clearly the strong market again today, gaining even further on the gasoline. With the economic situation continuing to put pressure on demand, we would look for heat to continue to gain against the gasoline. Slow stochastics for heating oil have crossed to the downside in overbought territory. The RBOB market tumbled more than 20.78 cents as it posted a low of 246.55. We would look for the economic situation and its impact on demand to remain at the forefront of these markets and for prices to continue to correct themselves to the downside. Open interest in crude oil is 1,446,449 down 51,536, April08 111,302 down 61,206, May08 358,874 up 7,913 and Dec08 208,022 down 470.

Trade Tracker

Trade	Date	Entry level	Current	Profit/Loss
Sell M08 Buy M09	3/13/08	585	540	+450.00 per contract