



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR MAY 6, 2008

Goldman Sachs said oil could rise to between \$150 and \$200/barrel within two years as growth in supply fails to keep pace with increased demand from developing countries. Goldman increased its 2008 price estimate to \$108/barrel from \$96/barrel, its 2009 forecast to \$110 from \$105 and 2010 and 2011 price estimate to \$120 from \$110. A Goldman Sachs analyst said prices are poised to gain as major oil exporting countries restrict foreign investments, limiting supply growth, while demand from developing countries increase on economic expansion and power shortages prompting high demand for gasoil and fuel oil. He said there was a fundamental misconception that

Market Watch

According to Reuters, the number of options positions betting on oil reaching \$200/barrel has tripled since the start of the year. Open interest in December \$200 crude call options has surged from 5,533 contracts to January 1 to 16,774 contracts as of May 5. Options to buy December crude at \$200/barrel have not risen sharply in price however. The contract settled at 58 cents/barrel on Tuesday with 5261 lots traded.

All US crude futures contracts into 2016 increased above \$110/barrel on Tuesday due to an increase in hedging demand from end-users. The forward curve showed contracts were now above \$120/barrel into September 2008. Brokers said they have seen more buyers of physical crude oil using the middle and the end of the curve as a hedging tool against an expected increase in prices.

The Institute for Supply Management said US manufacturing growth is likely to be marginal this year, with revenue up only 1%. It said capital investment would increase 1% in 2008 and capacity utilization would be 78.6% in the factory sector this year.

The Dubai Mercantile Exchange would launch two cash settled crude futures contracts next month. The new contracts for Brent and Oman crude would start on June 2, a year after the DME launched its first Oman crude futures contract. The DME Brent financial contract would be cash settled against ICE's Brent crude futures contracts while the DME Oman financial contract would be cash settled against the exiting DME Oman futures contract. The two contracts would be available for trading on DME Direct.

The European Union statistics office said rising energy costs fueled a steep increase in euro zone producer prices in March. Prices increased 0.7% on the month to a 5.7% annual gain. Core producer price inflation was 0.3% month on month and 3.7% annual compared with 0.5% and 3.6%, respectively, in February. Euro zone inflation eased in April to 3.3% year on year from 3.6% in March.

May Calendar Averages

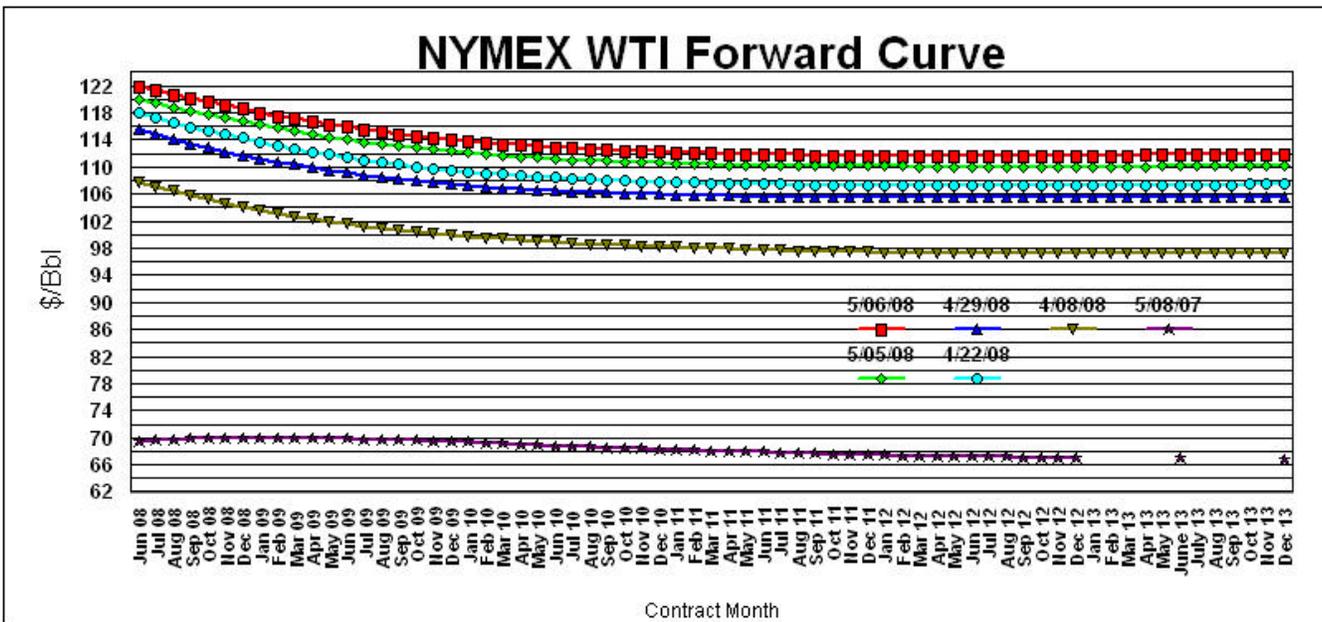
CL – 117.66
HO – 324.91
RB – 300.08

speculators were driving prices to unjustified levels.

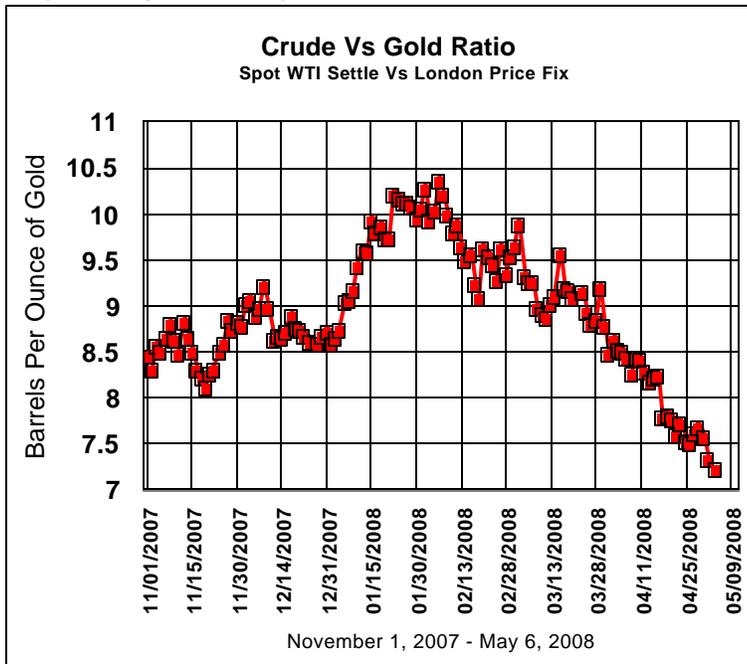
Indonesia’s Oil Minister Purnomo Yusgiantoro said it may quit OPEC due to a fall in its oil production that has reduced its influence in the cartel. Meanwhile, Indonesia’s President Susilo Bambang Yudhoyono said Indonesia was still evaluating whether it was still important for the country to be an OPEC member. Indonesia’s oil production has fallen in recent years due to ageing wells, a lack of investment and the absence of any major oil finds. Its status as a net importer means it would benefit from lower oil prices, putting it at odds with other OPEC members.

The Movement for the Emancipation of the Niger Delta militants said they were willing to ceasefire if the federal government allows mediation by former US President Jimmy Carter. The militant group said former US President Jimmy Carter has accepted their invitation to help mediate the crisis. However a Carter representative said no such firm assurance had been given.

The EIA stated in its latest Short Term Energy Outlook that WTI crude oil spot prices increased from \$101/barrel to \$120/barrel over the first three weeks of April. WTI crude is expected to average \$110/barrel in 2008 and \$103/barrel in 2009, up from its previous estimates of \$101/barrel and \$92.50/barrel, respectively. It reported that the price of regular gasoline is expected to average \$3.52/gallon in 2008, up from its previous estimate of \$3.36/gallon. The monthly average regular gasoline price is projected to peak at \$3.73/gallon in June. The EIA reported that the oil supply system continues to operate at near capacity and remains vulnerable to both actual and perceived supply disruptions. It said world oil markets remain particularly tight during the first half of 2008, with year on year growth in world oil demand outstripping growth in non-OPEC production by 1 million bpd. World oil demand is expected to grow by 1.2 million bpd in 2008, with the majority of the growth in 2008 is expected to come from non-OECD countries. China’s oil demand is expected to increase by 400,000 bpd in 2008. Meanwhile non-OPEC supply is forecast to increase by 600,000 bpd in 2008, with most of the growth expected in the second half of the year. In regards to OPEC’s production, the EIA stated that its oil production averaged about 32.2 million bpd during the first quarter of 2008. The EIA also reported that in 2007, domestic crude oil output averaged 5.1 million bpd while total output in 2008 is estimated to grow by 10,000 bpd. Total petroleum demand in 2008 is expected to average 20.51 million bpd, down 100,000 bpd from its previous estimate while demand in 2009 is estimated at 20.71 million bpd.



million bpd, down 110,000 bpd from its previous estimate. It cut its demand estimate due to high oil prices and the US economic slowdown. It estimated gasoline demand in 2008 at 9.23 million bpd, down 30,000 bpd from its previous estimate while demand in 2009 is estimated to increase to 9.29 million bpd, down 50,000 bpd from its previous estimate. Distillate demand in 2008 is estimated at 4.2 million bpd while demand in 2009 is estimated at 4.26 million bpd, down 10,000 bpd and 20,000 bpd, respectively, from its previous estimates.



According to the MasterCard Advisors LLC report, US gasoline demand fell by 2.5% or 238,000 bpd in the week ending May 2 to 9.15 million bpd. In the latest four weeks, demand was down 1.2% on the year. It reported that US retail gasoline prices increased 1.7% or 6 cents to a record \$3.61/gallon.

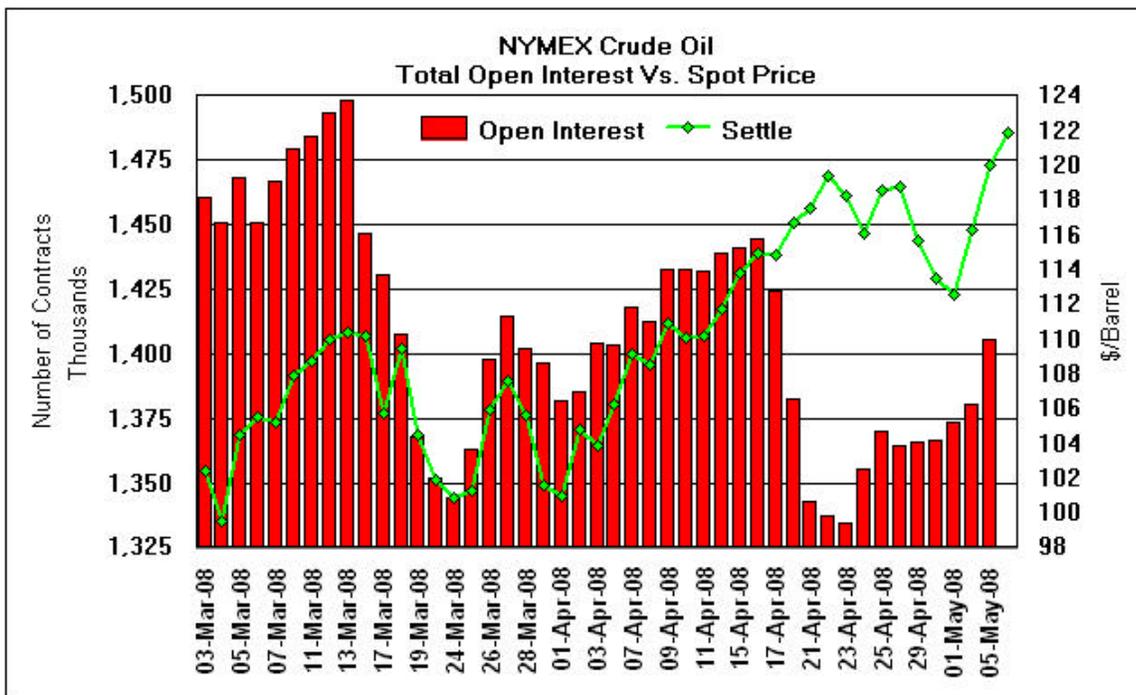
The EPA came under pressure at a hearing ahead of a decision on whether to roll back requirements calling for greater production of ethanol and other renewable fuels. The EPA has until late July to respond to a request from Texas Gov. Rick Perry to partially waive the requirement, which mandates 9 billion gallons of renewable fuel to be used this year. Meanwhile, Rep Joe Barton said he

and some colleagues planned to introduce legislation later this week that would appeal the section of the 2007 law that expanded renewable fuels requirements.

Refinery News

Chevron Corp's 260,000 bpd refinery in El Segundo, California reported a snag with steam injection.

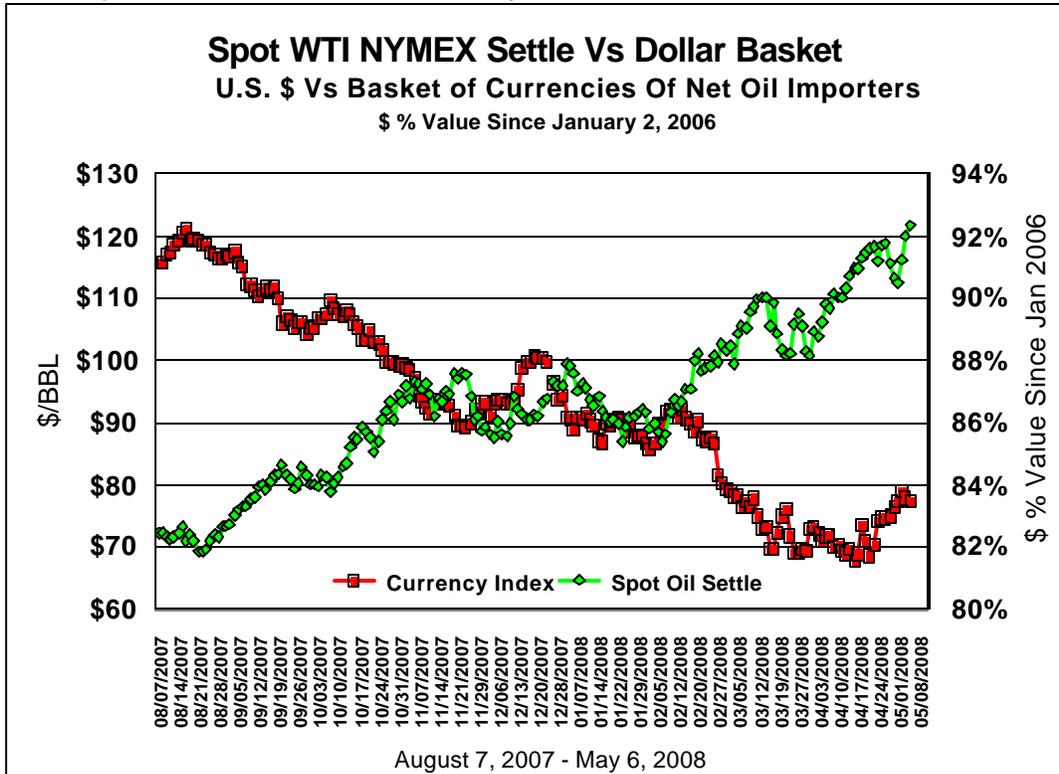
Separately, Chevron said the steam plant at its Pembroke refinery was fully operational and added



that the processing units would restart over the next several days.

Marathon Oil Corp completed a turnaround at its 192,000 bpd refinery in Robinson, Illinois last week after it began in mid-March.

A 63,000 bpd ultracracker unit at BP Plc's Texas City, Texas refinery was shut this week. The unit was shut for welding and some minor repairs. The refinery has previous shut two other gasoline units, an 80,000 bpd fluid catalytic cracking unit and an alkylation unit. The fluid catalytic cracking unit was scheduled to restart on May 9 but is still undergoing work. The alkylation unit was expected to restart in mid-April but its restart has been delayed several times.



Alon USA Energy Inc said repairs to its 25,000 bpd fluid catalytic cracking unit at its 70,000 bpd Big Spring, Texas refinery is expected to be completed by the end of July following a mid-February fire.

ExxonMobil Corp rejected reports that its 300,000 bpd Fawley refinery was unsafe.

ExxonMobil's comments came in response to a

report in a UK newspaper which said Fawley workers feared a major accident would occur at the plant.

France's Port of Marseille, which includes the terminals of Fos-Lavera said oil terminals were working but a total of 18 ships were stacked up waiting. The port authority said eight crude oil tankers, six refined product tankers, one gas tanker and three chemical ships were waiting to dock at the Fos-Lavera oil terminals.

Brazil's Petrobras said the company would make a decision on Friday on whether to buy a 255,000 bpd refinery in Aruba from Valero Energy Corp.

Pemex announced a tender for 102 days of maintenance and repair work at a fluid catalytic cracking unit at its Salamanca refinery starting in late June. The maintenance is expected to start June 27.

Kuwait National Petroleum Co plans to upgrade its Mina Abdullah and Mina al-Ahmadi refineries with up to \$18.73 billion. The tender would be launched in August after obtaining approval from Kuwaiti authorities. KNPC said it was seeking to upgrade the capacity of its Mina Abdullah and al-Ahmadi refineries to 800,000 bpd from 600,000 bpd by adding new units or improving existing ones. The

refinery upgrade is part of Kuwait's plan to increase refinery capacity to 1.415 million bpd from 930,000 bpd.

Kuwait Petroleum Corp is expected submit a feasibility study for a planned refinery joint venture with Sinopec Corp in southern China within a month. The Nansha project would likely have a capacity of between 300,000 and 350,000 bpd of crude, which would secure Kuwait's sales of about 10% of China's current import level. By 2015, KPC would supply between 500,000 and 700,000 bpd of crude to the Nansha plant and a second one in Quanzhou owned by Sinochem.

China and Venezuela are expected to further strengthen energy links by signing a deal this week to jointly build a refinery in China that would process Venezuelan crude. The deal would help increase Venezuela's crude sales to China by 400,000 bpd, about five times the current volume. The deal is due for signing in Caracas during a state visit later this week by China's Vice Premier Hui Liangyu.

Merrill Lynch reported that Singapore complex refining margins fell to an eight week low in the week ending May 2. Singapore complex refining margins fell \$1.54 to \$10.65/barrel.

Production News

ExxonMobil has returned its oil production in Nigeria to normal operating levels following an eight day strike that shut in its 800,000 bpd of output. An ExxonMobil spokeswoman could not immediately say whether Exxon had now lifted the force majeure following the end of the strike. Meanwhile, Shell said it would start resuming its production shut by militant attacks within days. It said its production in Nigeria was still down by about 164,000 bpd. It said an attack by Niger Delta rebels on Saturday which blew up an oil flowstation in the southern state of Bayelsa was not a severe incident and had little impact on production. There is still about 564,000 bpd of shut in Nigerian production.

Colombia's Ecopetrol SA resumed pumping oil through its Cano Limon-Covenas pipeline after suspending operations on April 29 following an attack on the pipeline.

Russia's Energy Ministry reported that Russia's oil production fell to 39.78 million tons or 9.72 million bpd in April, down 0.4% on the month while exports via Transneft increased by 6.7% to 18.486 million tons or 4.52 million bpd. Russia's seaborne exports increased to 11.974 million tons or 2.93 million bpd in April from 11.49 million tons in March.

Kazakh and Russian oil exports via the Caspian Pipeline Consortium to the Black Sea increased in April by 18.5% to 748,947 bpd from 631,816 bpd in March.

Kazakhstan's KazTransOil has started transporting Russian oil through its pipeline to China and has already shipped 300,000 tons of crude in the first quarter of the year.

Pemex said its 2008 production would be above 3 million bpd of oil equivalent despite the steep output decline in Mexico's largest oil field and production problems during the first four months of the year. Its official output target is 3.1 million bpd of oil equivalent for the year.

OPEC's news agency reported that OPEC's basket of crudes increased sharply to \$111.60/barrel on Monday from \$106.99/barrel on Friday. It also reported that OPEC's basket of crudes fell \$1.76/barrel to an average of \$108.37/barrel in the week ending May 2, down from a record high of \$110.13/barrel the previous week.

Market Commentary:

Once again fundamentals kicked in and pushed prices to new record highs across the energy complex.

| | | Explanation |
|-----------|--|--------------------------------|
| CL | Resistance 121.84, up \$1.87 | 124.73, 126.67 |
| | Support | 122.73 |
| HO | Resistance 335.35, up 4.7 cents | 121.00, 120.25, 119.33 |
| | Support | 116.05, 111.78, 110.30, 109.63 |
| RB | Resistance 310.55, up 5.26 cents | 349.16 |
| | Support | 337.12 |
| | Resistance | 333.85, 332.70, 330.50, 328.83 |
| | Support | 320.25, 311.90, 310.70, 306.81 |
| | Resistance | 315.79, 316.10 |
| | Support | 312.60 |
| | | 309.05, 307.15, 304.00 |
| | | 292.78, 286.47, 285.12, 281.95 |

Asian fuel consumption is showing no signs of letting up with economic growth for China expected to jump by 10.8% this quarter. Global demand is expected to rise 1.5% to 87.23 million barrels per day. Supply disruptions are still occurring, with Nigerian output affected by up to 160,000 barrels a day. Psychologically, this market may have reacted to a statement from Goldman Sachs, that crude oil prices could reach as much as \$200.00 per barrel over the next twenty-four months. Making a record high today of \$122.35, June crude oil settled up \$1.87 on the day. Hedge fund traders turned to commodities again today as the dollar continued to show signs of weakness. Perhaps the supply/demand situation may not add to \$122.00 crude oil but the old phrase "the trend is your friend" cannot be ignored. This is the third straight session of higher lows and higher highs. At this point in time the next upside objective is \$126.67, the channel top on the spot continuation chart. The June/July spread came under pressure early in the session, only to come back later on. Technically the index rolls begin on the fifth trading day of the month but have been known to start early. We may have seen some of this today, but should see more of it starting tomorrow. This should help to put further pressure on the spread should the rolls go into the July contract. June gasoline traded as high as \$3.1260 today, 2.35 cents shy of reaching the channel top. Tomorrow this channel comes in at \$3.1610 and \$2.8910. Slight draws are expected for tomorrow for the DOE/API numbers but again, we would focus on both the demand and import numbers. Gasoline imports are expected to grow as supplies are said to be on their way from ARA. Technically, this market still looks constructive and a break of the aforementioned channel sets up a move towards the \$3.4310 projected move. The June gasoline crack appears to be picking up its seasonal head and should continue to do so up and into expiration of the June crude oil contract. Defying seasonality, heating oil still remains strong, managing another record high. This product did as we expected, follow the rest of the complex higher, but at a slower pace. We will remain with this view of the market and buy and sell against the listed support and resistance numbers. The June heating oil crack continues to trend within the descending channel, touching the top today. Should this crack spread break to the upside, we would abandon any short position and reverse roles. The channel for this spread comes into tomorrow set at \$18.71 and \$17.54. Total open interest for crude oil 1,405,514 up 25,363, June 08 347,081 up 4,526, July08 170,147 up 11,859 and December 08 209,760 up 3,094. Total open interest for heating oil 225,702 up 4,182, June 84,463 down 347 and July 37,433 up 2,433. Total open interest for gasoline, 256,229 up 1,577, June 88,452 down 2,412 and July 52,054 up 1,827.