



ENERGY RISK MANAGEMENT

Howard Rennell, Pat Shigueta
& Karen Palladino

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

www.e-windham.com

ENERGY MARKET REPORT FOR JUNE 9, 2008

The head of global commodities research at Goldman Sachs, Jeffrey Currie said oil prices may reach \$150/barrel this summer due to lower US stockpiles and falling supply. Goldman Sachs also forecast that oil would end the year at about \$150/barrel. Meanwhile, Merrill Lynch said oil prices are expected to bounce between \$120 and \$150/barrel over the course of the summer.

Saudi Arabia said it would soon call for a meeting between oil producing and

Market Watch

A World Bank official said world oil prices are expected to remain high in a range between \$104/barrel and \$108/barrel over the next three to five years.

Analysts stated that Valero Energy Corp and ConocoPhillips this summer is expected to make more money from diesel than gasoline in the Northern Hemisphere as China halts its exports, the Middle East increases its imports and power shortages force mines from Australia to Chile to run oil fed generators. A Mitsubishi analyst said diesel would continue to trade a premium over gasoline in the next few years. According to Merrill Lynch, diesel use in developed economies is increasing about 2% this year or 200,000 bpd while gasoline demand in the US falls for the first time since 1991. The trend is expected to continue increasing diesel's premium to gasoline by 31% to more than \$190/ton in Europe by year end. Refiners are expected to profit by producing more diesel instead of gasoline and processing cheaper, heavy grades of crude. Reliance Industries Ltd is expected to start operating the world's largest refinery, with equipment designed to produce about 247,000 bpd of diesel from every 580,000 bpd of crude. Saras SpA, Italy's ERG SpA and Greece's Motor Oil Hellas SA also have plants with units designed to maximize diesel supply. Most US refiners can't maximize diesel production and cut back on gasoline because they lack the flexibility to switch from one product to another. US oil refiners for the past seven years focused on increasing gasoline production, adding the capacity to make another 1.2 million bpd, almost double the additional 700,000 barrels of diesel. Stricter emission standards for diesel in the US and Europe is also expected to support prices. In 2009, the European Union would require sulfur content in diesel to be lowered by 80% to 10 parts per million.

The NYMEX announced that it set daily volume records on June 6 for total futures and options contracts traded on the CME Globex electronic trading platform, with 1,598,891 contracts traded. It surpassed the previous record of 1,486,255 contracts traded on March 17. Total crude oil futures, via electronic and open outcry trading, reached 1,092,509 contracts, surpassing the 880,873 contracts traded on November 13, 2007. Crude oil futures traded on CME Globex totaled 983,988 contracts, surpassing the 809,048 contracts traded on May 22.

The NYMEX announced that it would increase margins on its crude oil, crude oil calendar swap and crude oil financial futures contracts to \$11,475 from \$10,463 for customers at the close of business Tuesday.

Even though official figures show investment in property still grew 32% in the first four months from a year earlier, a credit crunch, dwindling transactions and falling prices are adding to the problems in China's real estate industry, which has been key to China's growth. Developers have been halting their projects as bank loans drew up and the cost of tapping other sources of funds increase. Dropping home sales are a threat to developers, who rely heavily on cash from the pre-sale of unfinished projects to fund operations and further expansion.

May Calendar Averages**CL** – 129.18**HO** – 373.99**RB** – 336.91

consuming countries to discuss what it called the unjustified rise in oil prices. Saudi Arabia's Information and Culture Minister Iyad Madani said the country would also work with OPEC to guarantee the availability of oil supplies. He said Saudi Arabia has increased its output in June and has informed its customers that it is ready to provide them with any additional oil they need.

OPEC President Chakib Khelil said there was a speculative bubble in the oil markets due to a depreciating dollar and geopolitical tensions. He said oil prices would probably be at \$70/barrel if the market was not supported by the weak dollar and geopolitical tensions. OPEC's Secretary General, Abdullah al-Badri said there was no shortage of oil in the market and added that inventories in major consumer regions were at comfortable levels.

Qatar's Oil Minister Abdullah al-Attiyah said last week's surge was not due to supply shortages. He said speculation was moving the markets. Nigeria's Oil Minister Odein Ajumogobia said OPEC was powerless to affect the volatility in world oil prices and emergency meeting would only fuel speculation and exacerbate the problem. Meanwhile, Iran's OPEC Governor Mohammad Ali Khatibi also said last week's oil price move to a record of over \$139/barrel had nothing to do with a supply shortage. He said world oil prices are expected to reach \$150/barrel by the end of the summer. He also said there was no reason for OPEC to hold a meeting before its next scheduled gathering in September. Separately he stated that Iran is expected to export over 2.5 million bpd of crude in June. Ship tracking data showed that Iran had 14 tankers idling in the Persian Gulf, almost two weeks after it pledged to reduce the amount of crude stored on vessels. The tankers, capable of storing as much as 28 million barrels of oil, were near Kharg Island loading facility.

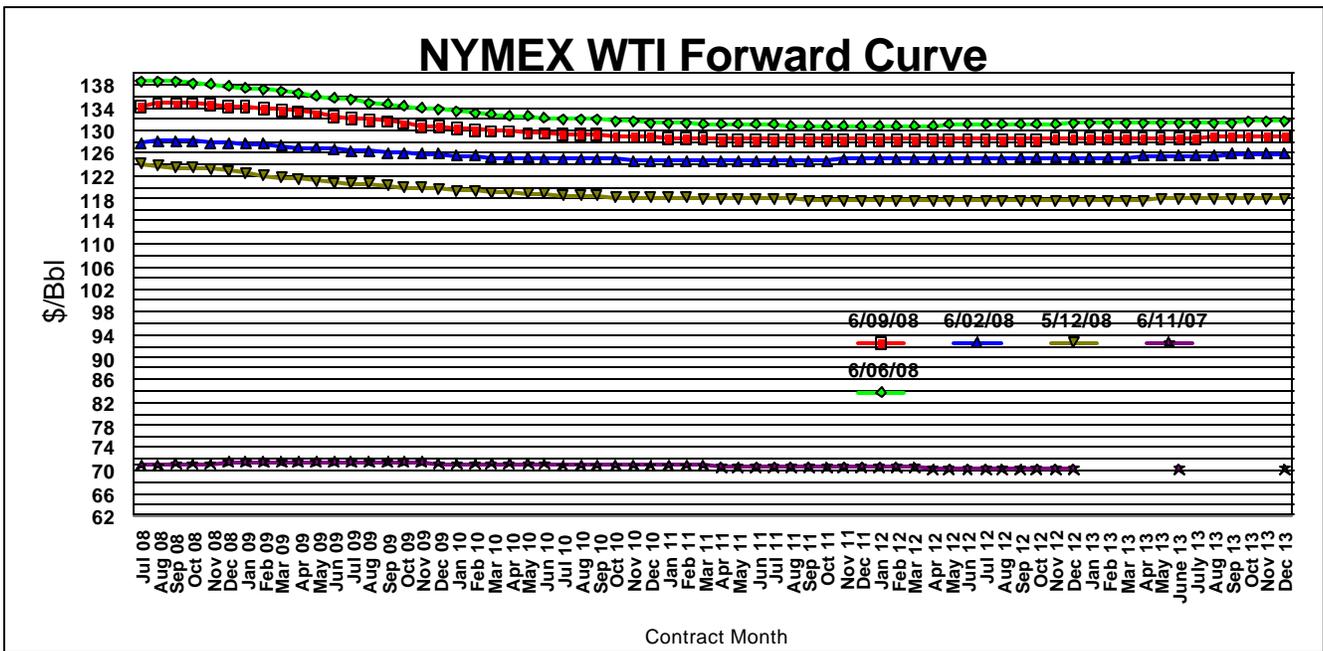
Ecuador's Oil Minister Galo Chiriboga said that he did not see a need for OPEC to increase its production or for an emergency meeting before September. He said there was no shortage of crude in the market and there was enough oil to cover demand.

Limited spare capacity may cap OPEC's price leverage, according to an analyst. He stated that Middle East oil producers have limited spare capacity of not more than 2 million bpd. He also stated that the spare capacity consists of heavy crude. However some Gulf officials argue that spare capacity, even if thin, has nothing to do with constantly rising prices.

The US Treasury Secretary Henry Paulson declined to rule out intervening in currency markets to stabilize the dollar. He also said record oil prices were a problem for the US economy.

The US Commodity Futures Trading Commission said its new energy market advisory committee is scheduled to meet on Tuesday to discuss the role of index trading in energy markets and energy trading on foreign exchanges. The advisory panel is made up of representatives from the energy industry, including Lehman Brothers, Goldman Sachs and Merrill Lynch, NYMEX president James Newsome and IntercontinentalExchange president Jeffrey Sprecher. The CFTC is also scheduled to host international regulators later this week at a two day conference to address ways to detect and deter manipulation in energy markets.

The Group of Eight energy ministers and officials from China, India and South Korea voiced concern at record oil prices Sunday and said energy efficiency was the most immediate way to mitigate the impact on economies. They said there was an urgent need for investment in the energy sector worldwide and called for greater access to world oil and natural gas reserves.



French President Nicolas Sarkozy said the world economy was facing an oil price shock of a strength it had never experienced before. He said he presented his proposals on how to react to the oil price rise to German Chancellor Angela Merkel and hoped EU leaders would discuss possible responses at their next meeting.

An Organization for Economic Cooperation and Development agriculture official urged that biofuel subsidies be scrapped. It forecast that food prices would remain high and that development of biofuels was responsible for about one-third of recent increases.

BP Plc chief executive Tony Hayward said oil prices are unstable because the markets are not well supplied and higher taxes in producing countries were not conducive to investing. He said the era of inexpensive energy is over as oil production is not rising fast enough to meet demand amid a lack of spending. He said if the industry was able to increase oil recovery rates 5% above the current 35%, it would add about 170 billion barrels or five years' supply to world reserves.

ExxonMobil's chief executive Rex Tillerson said the increasing role of governments in the world oil industry was partly to blame for higher prices. He said the oil industry needed free trade, open markets and the rule of law to meet the demand.

Israel attempted to down play a warning from a senior government minister that an attack on Iran was unavoidable. Israel's transportation minister Shaul Mofaz raised the prospect of a unilateral Israeli attack against Tehran on Friday. Defense officials criticized the minister, saying his comments would make it more difficult for Israel to convince the international community to intensify its efforts. Over the weekend, Iran retaliated against his comments, demanding action from the UN Security Council and accusing Israel of violating international law.

Iran's Supreme leader Ayatollah Ali Khamenei warned Iraq's visiting prime minister Nouri al-Maliki against signing an agreement with the US keeping foreign troops in the country beyond 2008. He said the continued presence of US troops was Iraq's main problem. Iraq's prime minister said Iraq would not allow the country to become a platform for harming the security of Iran and neighbors.

According to the final draft of the US-EU summit communiqué, the US and EU are ready to take extra measures against Iran in addition to the UN sanctions imposed against the country if Iran continues to

ignore demands to suspend its nuclear work. It said the US and EU would continue to work together to take steps to ensure Iranian banks cannot abuse the international banking system to support proliferation and terrorism.

An Iraqi oil official said the Iraqi Oil Ministry was planning to announce the first round of tenders to develop its vast oil fields at the end of June or the beginning of July. The official said the North Rumaila, South Rumaila, Zubair, West Qurna, Buzurgan, Kirkuk and Bai Hassan field would be included in the tender announcement.

The head of Iraq's State Oil Marketing Organization, Falah Alamri said the country would increase its crude oil sales by 9.7%

to 2.14 million bpd for the second half of 2008. He said about 1.66 million bpd would be exported from southern oil fields while 480,000 bpd would be exported from northern fields.

Israeli officials said indirect peace talks between Israel and Syria are scheduled to resume this week in Turkey.

A Nigerian navy spokesman said armed militants in southern Nigeria seized an oil vessel belonging to Canada's Addax Petroleum Corp and were holding eight naval personnel onboard.

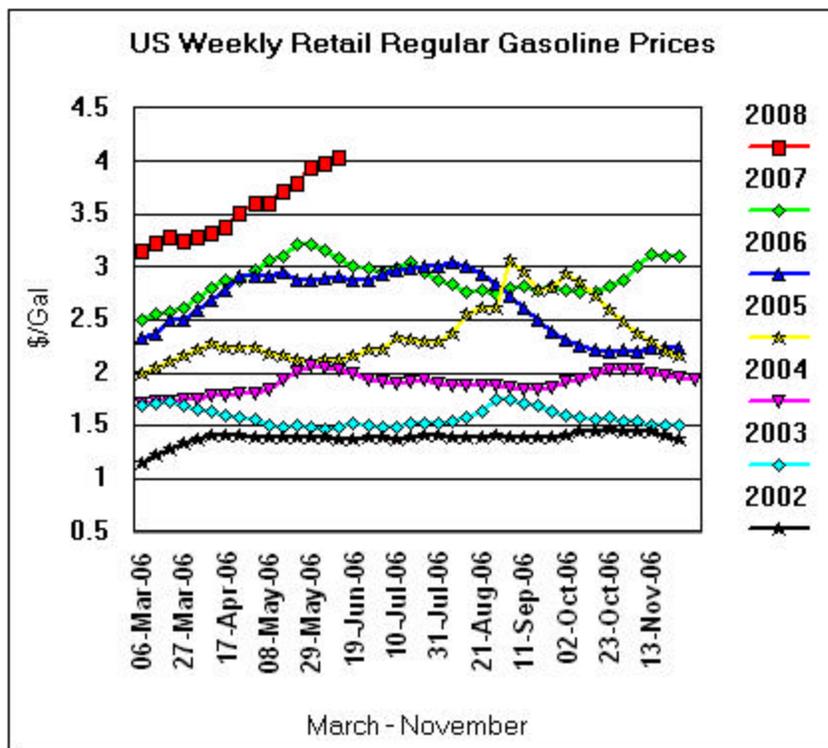
US Energy Secretary Samuel Bodman said the US and its oil industry is prepared for the hurricane season. He said the oil industry had a couple of years to get caught up. During the past two hurricane seasons, the National Oceanic and Atmospheric Administration issued forecast for higher than normal hurricane seasons only to downgrade their forecasts later in the year. This year, it said it expected a 65% probability of an above average hurricane season beginning in August. It has forecast five major storms. He said that in case there was a severe oil supply disruption, the US would take oil from the SPR.

According to the AAA, the average price of gasoline in the US reached an average of \$4/gallon for the first time on Sunday.

The EIA reported that the US average retail price of diesel fell by 1.5 cents to \$4.692/gallon in the week ending June 9th. It also reported that the US average retail price of gasoline increased by 6.3 cents/gallon to \$4.039/gallon on the week.

Refinery News

Credit Suisse reported that US refinery margins in most regions fell last week. Refiners in the Midwest saw the largest margin decline of \$1.80/barrel to \$15.84/barrel in the week ending June 6 while margins in the Gulf Coast fell by 74 cents to \$16.39/barrel. Margins in the Northeast fell by 24 cents to



\$11.90/barrel while margins in the Rocky Mountain fell by 17 cents to \$23.69/barrel. Margins in the West Coast however increased by \$1.15 to \$31.84/barrel.

Valero Energy Corp said it restarted the fluid catalytic cracking unit and alkylation unit at its 135,000 bpd Wilmington, California refinery after a brief snag on Friday. Separately, Valero reported that a CO boiler at its 210,000 bpd Delaware City, Delaware refinery resumed operations following a recent snag. Valero also announced that it shut a diesel hydrotreater for planned maintenance work starting on Sunday at its refinery in Port Arthur, Texas.

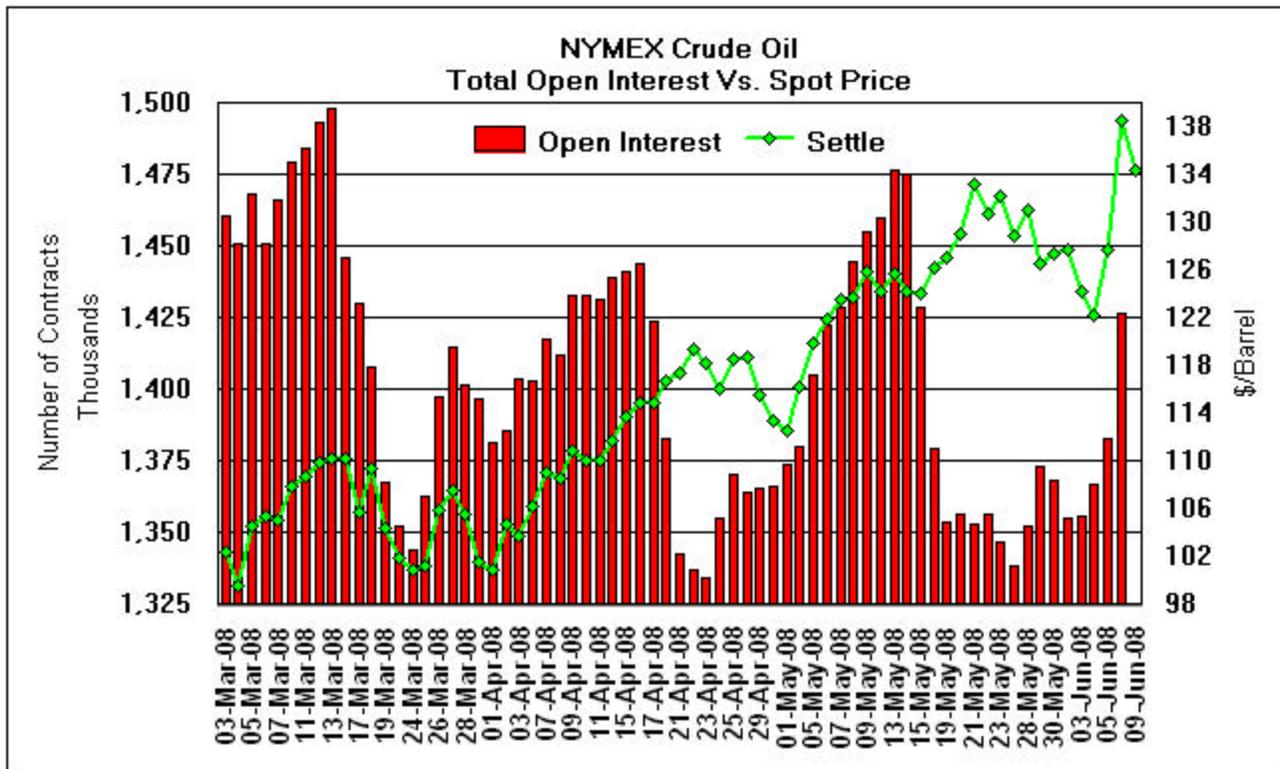
The expansion plans for ConocoPhillips' Illinois refinery hit an obstacle after an appeals board of the US EPA rejected air permits. The expansion at the Wood River refinery would increase the volume of heavy Canadian crude that could be processed in the US.

A fire at Petroplus' 110,000 bpd BRC refinery in the Belgian port city of Antwerp was under control after it started in a unit that processes heavy fuel oils. It said several processing units were shutdown as a precaution. The refinery was evacuated after the fire.

France's Autonomous Port of Marseille said 29 tankers of petroleum products would be hit by delays caused by a 24 hour strike. It said operations to load or unload the ships would be delayed by 24 hours.

China's state-run People's Daily reported that China was facing increasing pressure to raise oil product prices due to high world oil prices. It also reported a diesel shortage in China's agricultural sector. Since spring, there have been shortages of diesel, the main fuel for farm machinery, due in part to increased farming activity.

Discounts for heavy crudes have been rising while premiums for light grades have been increasing, resulting in a widening gap between light and heavy crudes. The West African market has seen price gaps between distillates and gasoline rich light crude and fuel rich heavy crude widening to \$16-



\$17/barrel levels in June. High sulfur fuel oil's cracks to Brent in Europe have recently fallen to record levels around dated minus about \$40/barrel. However ICE gas oil futures' cracks reached a record high of about \$42/barrel in late May. In the US, the spreads between domestically produced Light Louisiana Sweet and medium Mars have been about \$10-\$11/barrel in June compared with \$8/barrel last year.

Production News

The July loading program for North Sea Brent blend crude oil scheduled the loading of 5.428 million barrels or 175,000 bpd, up from 4.839 million barrels or 161,000 bpd in June.

The North Sea Forties crude oil system is scheduled to load 581,000 bpd in July, down from 620,000 bpd in June. Meanwhile, the North Sea Gullfaks crude system is scheduled to load about 276,000 bpd in July, up from 199,500 bpd in June.

Marathon Oil Corp's Alvheim oil development in Norway is expected to increase its production to 75,000 bpd of oil equivalent by the beginning of 2009.

The BP-led Baku-Ceyhan pipeline is expected to pump about 774,000 bpd in July, up from June.

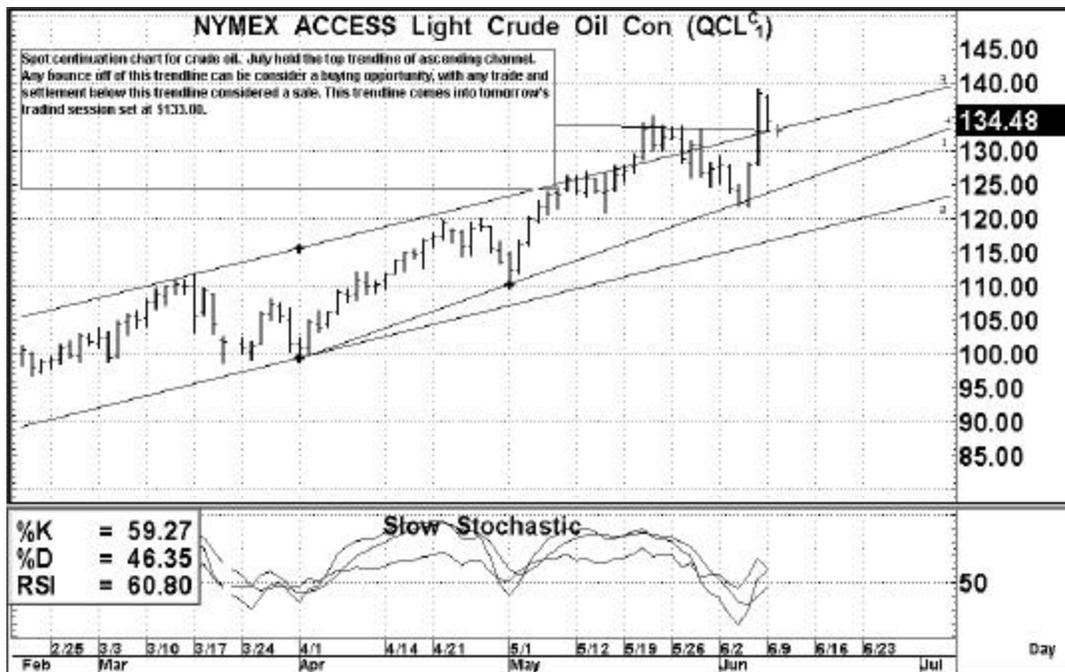
Kuwait Petroleum Corp increased the price of propane for June delivery by 5.9% to \$895/ton while the price of butane was increased by 7% to \$920/ton.

OPEC's news agency reported that OPEC's basket of crudes fell by \$2.85/barrel to \$121.45/barrel in the week ending June 6.

Russia's Gazprom called off its joint venture to pool power and coal assets with energy major SUEK. In place of the joint venture, Gazprom and SUEK signed a strategic partnership deal outlining their long term cooperation in the power sector.

Market Commentary:

With the dollar posting gains for the first time in three days and statements by the Saudi Oil minister calling for a meeting between oil producing countries and consuming nations to discuss recent record prices, the energy markets sold off today. Basis the spot continuation chart for crude oil, the July contract held above the top trendline, which was set today at \$133.00. Both the slow stochastic and RSI's are trending higher in somewhat neutral territory. A break and settlement below the top trendline on the ascending channel on this chart sets up the July contract for a test of support, which comes in tomorrow set at \$123.75, basis the aforementioned continuation chart. Once again the July08/August08 spread came under pressure, but at the time of this writing, failed to weaken beyond -.41 cent support level. As mentioned previously, we would like to be sellers of the July08 contract and buyers of the August08 with a penetration at -.45. Gasoline was clearly the weakest of the three markets today, losing value to both the crude oil and the heating oil. The July contract is once again trading back within the ascending channel on the spot continuation chart, after experiencing an inside trading day. Slow stochastic and the RSI are trending in neutral territory and at this point the market still can go either way. With demand for diesel remaining strong, refiners are more inclined to produce diesel over gasoline. For now this may not prove to be much of a factor in pushing gasoline higher, as long as the demand factor remains bleak. For now we would look to trade the listed support and resistance number for this product, while keeping a watchful eye on demand. The July08 gasoline crack lost more than \$2.00 today, nearing our initial downside objective of \$6.84. With industry sources calling for diminished demand for gasoline, we would anticipate that this spread will meet our objective and beyond. Should the \$6.84 previous low be broken we would add to any short positions on this spread, should it hold we would cover any shorts, taking profits while we can. Heating oil, although



under pressure today, held up in comparison to crude oil and gasoline, gaining against both. As demand for diesel remains strong both in the U.S. and abroad, heating oil will continue to remain uncharacteristically strong for this time of year. Like the gasoline, we would look to buy and sell against the listed support and resistance numbers, not

looking for the trend to change until prices trade below the bottom of the ascending trendline on the spot continuation chart, which comes in tomorrow set at 43.4076. Total open interest for crude oil is 1,427,022 up 44,231, July08 313,097 down 10,932, August08 175,260 up 31,858, December 08 185,042 down 7,157. Total open interest for heating oil is 217,401 up 2,485 July08, 64,532 down 1,464, August08, 30,453 up 2,313. Total open interest for gasoline, 246,517 down 90, July 77,691 down 6,510, August08, 36,024 up 4,255.

July Crude Support	July Crude Resistance
127.80, 122.54, 120.65, 119.36, 109.60, 98.60, 85.40	141.00, 147.54, 150.00
Heating oil support	Heating oil resistance
3.8500, 3.7885, 3.6800, 3.5450, 3.5100, 3.3500, 3.1680, 3.0980	4.0338, 4.0475, 4.0640
Gasoline support	Gasoline resistance
3.3345, 3.3075, 3.1760, 3.0920, 3.0730, 3.0400, 3.0250, 2.9255	3.63.45, 3.755, 3.8655