



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JUNE 26, 2008

The chairman of Libya's National Oil Corp, Shokri Ghanem said Libya may cut its oil production because the oil market is oversupplied. He however declined to say when a decision would be made on whether to lower its production or give any indication of the size of the cut under consideration. He said speculators and political tensions in the

Middle East were behind the oil rally. He also stated that oil prices may reach the \$150/barrel level but does not expected prices to reach \$200/barrel this summer. Meanwhile, an OPEC delegate said OPEC is not contemplating cutting its oil production as a group despite comments made by Libya. He said OPEC members reaffirmed that they would not take formal action as a group until September during the summit of oil producing and consuming countries this past Sunday.

OPEC's President Chakib Khelil said crude oil prices could reach \$150/barrel and trade to as high as \$170/barrel in the coming months but were unlikely to reach \$200/barrel. He however said prices should ease towards the end of the year.

June Calendar Averages

CL – 133.37
HO – 380.23
RB – 341.72

Market Watch

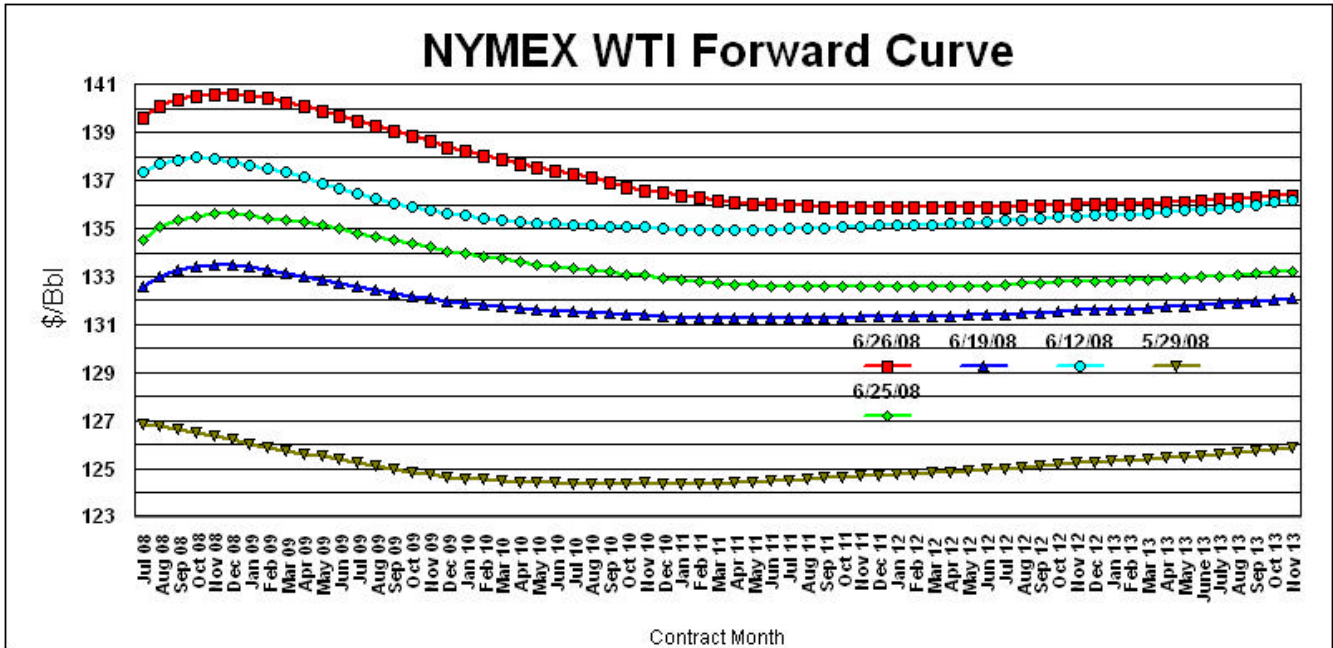
Investor Marc Faber said commodities will face a correction after a seven year rally, which will help ease global inflation. He said commodity prices will fall in the next six months to one year but added that prices will resume their gains after the correction with demand for oil doubling in the next 12 years.

The head of commodities research at Barclays said oil prices should stabilize between \$120 and \$130/barrel for the next few months.

The US Securities and Exchange Commission proposed a new oil and gas report standard. Under the proposal, previously excluded resources such as oil sands will be allowed to be classified as reserves, a change the industry has been pushing for. Companies could also disclose probable and possible reserves to investors. Currently, rules limit disclosure to only proved reserves.

China's State Council has approved the setup of the newly established State Energy Bureau. The agency, still a unit under the National Development and Reform Commission is seen by analysts as a relatively weak body that may struggle to improve handling of demand, security and state-run energy companies.

According to Oil Movements, OPEC crude oil shipments are expected to fall by 60,000 bpd to 24.59 million bpd in the four weeks ending July 12. Shipments from Middle Eastern OPEC producers are expected to fall by 250,000 bpd to 17.58 million bpd.



The Iraq Federation of Oil Unions, which represents more than half of the country's oil workers, will consider striking to stop the passage of a national oil law. The union is opposed to the proposed law being negotiated in Iraq's parliament because it would cede too much control and revenue to foreign companies.

Nigeria's senior oil workers union, Pengassan and Chevron are expected to resume talks on Thursday in a final effort to avert a strike. Pengassan and Chevron are expected to meet with Nigeria's Oil Minister Odein Ajumogobia. Union workers staged a partial strike this week, stopping administrative staff from getting to their offices in Lagos, to pressure management ahead of the two day talks in Abuja. Pengassan's secretary general Bayo Olowoshile was optimistic the two sides would come to an agreement, as a worker's strike would cut Chevron's operations in Nigeria. Nigeria's Oil Minister Odein Ajumogobia also said he was confident a deal could be reached between the union and Chevron.

Iran's President Mahmoud Ahmadinejad said Iran's enemies would never succeed in stopping its nuclear activities. Iran has stated that new sanctions imposed against the country by the EU over its nuclear program could damage diplomatic efforts to resolve the dispute. Meanwhile Iran's Parliament Speaker Ali Larijani said the ideal of establishing a US diplomatic outpost in Iran was a misleading gesture. Earlier this week, reports suggested the US was debating creating a US presence in Iran without formal resumption of diplomatic relations.

Refinery News

Citgo Petroleum Corp restarted most units its 430,000 bpd Lake Charles, Louisiana refinery late Wednesday following a brief power outage earlier in the day. Its alkylation unit and one of the fluid catalytic cracking units restarted early Thursday and a vacuum unit is expected to restart later in the day.

Chevron Corp said its crude unit was operating normally on Wednesday at its 260,000 bpd refinery in El Segundo, California after restarting on Sunday. The crude unit was shut on May 16 for planned work.

Total Petrochemicals USA was preparing to shut Atmospheric Crude unit-2 at its 232,000 bpd Port Arthur, Texas refinery for a week of planned work.

Enterprise Products Partners LP restarted its 125,000 bpd Seminole Pipeline that transports propane and other natural gas liquids from West Texas to Mont Belvieu, Texas late on Wednesday.

Petroplus Holdings AG shut its Teesside plant in the UK on Thursday for routine maintenance. The refinery will remain closed until July 18.

South Korea's GS Caltex Corp will start production at its No. 3 heavy oil upgrading unit by October 2010.

A 24 hour strike on Thursday at France's Fos-Lavera near Marseille blocked 30 oil tankers from berthing or were blocked at the dock.

Pemex will start repair work of an alkylation unit at its 200,000 bpd Salamanca refinery in late August. It also plans to carry out more than three months of maintenance work on a fluid catalytic cracking unit from July through September.

Sinopec Corp has completed construction of the first phase of an expansion at its Wuhan refinery. A 1.9 million ton/year hydrotreating unit for diesel and kerosene will increase its crude processing capacity by 30% to 130,000 bpd. Construction of three other facilities in the first phase, including a 100,000 bpd crude unit, a 1.2 million ton/year delayed coking unit and a 60,000 ton/year sulphur recovery unit were completed and operating normally. The refinery will eventually increase its crude processing capacity to 160,000 bpd by 2010.

Canada's National Energy Board said Canada's oil pipeline capacity will likely remain tight this year but added that proposed projects could help ease the strain in the future. Canada's pipeline infrastructure has not kept pace with the boom in Alberta's oil sands, which is forecast to reach 3.5 million bpd by the end of the next decade. TranCanada Corp has started work on its 590,000 bpd Keystone line to Wood River and Patoka, Illinois from Hardisty, Alberta, with another section leading to Cushing, Oklahoma. It is scheduled to start in 2009. Enbridge is moving ahead with Alberta Clipper, a 450,000 bpd pipeline from Hardisty to Superior, Wisconsin which is expected to begin service in 2010.

Gasoline stocks in independent storage in the Amsterdam-Rotterdam-Antwerp area increased by about 6% on the week and by 20% on the year to 804,000 tons in the week ending June 26. Gas oil stocks increased slightly by 0.30% on the week but fell by 29.2% on the year to 1.346 million tons while fuel oil stocks fell by 14.5% on the week and fell by 3.7% on the year to 547,000 tons.

Singapore's International Enterprise reported that the country's residual fuel stocks built by 3.249 million barrels to 23.501 million barrels in the week ending June 26. It also reported that Singapore's light distillate stocks fell by 1.211 million barrels to 9.024 million barrels while middle distillate stocks fell by 126,000 barrels to 8.492 million barrels.

Production News

An explosion at an oil field near Vanderbilt, Texas injured at least three people on Thursday morning. A report did not name the field where the incident occurred.

Mexico's Energy Ministry reported that crude production from Mexico's Cantarell oilfield fell in May for the eighth consecutive month to 1.038 million bpd, its lowest level in more than 12 years.

A senior oil official at the National Iranian Oil Co said Iran's oil industry needs 100 onshore and offshore drilling platforms within the next 10 years. He said the development of Iran's oil industry is directly related to the development of the drilling industry.

Brazil's President Luiz Inacio Lula da Silva said Brazil will triple its oil reserves from exploration of recently discovered offshore areas. He also stated that he has changed his mind about seeking membership for Brazil in OPEC because he wants the country to focus on local refining of its oil.

OPEC's news agency reported that OPEC's basket of crudes fell to \$129.87/barrel on Wednesday, down from Tuesday's \$131.34/barrel level.

Market Commentary

The energy markets were spurred higher today by several different venues. Libya's chairman of their National Oil Corporation made a statement that Libya may cut production. OPEC's president stated today that crude oil could hit \$170.00 a barrel by summer's end and the dollar, once again, lost value against other currencies. This move higher in prices sparked off short covering frenzy, adding further momentum to the market. Crude oil posted another record high today, reaching \$140.39. The August08 contract broke out of its sideways channel, only to settle back within the channel. Despite a \$5.00 move higher, front end spreads were little changed. This can be seen upon examination of the forward curve, which indicates that calendar 09 was the firmer part of this curve. This may be attributed to short covering in that part of the curve. We will get a clearer understanding when tomorrow's open interest numbers come out. Based on a weekly chart, slow stochastics and rsi's are in over bought territory, the stochastics more so than the rsi's. Due to the inability of this market to settle above the congestion channel and the fact that products did not make new record highs, we would look for a pull back coming into tomorrow's market. Both gasoline and heating moved higher today, however they did not make record highs. With the U.S. economy weak in comparison to the rest of the world, demand may be the key factor that put a lid on prices as far as new contract highs go. Investors are more likely to use the crude oil as a hedge against the weak dollar and not the heating oil and gasoline markets. So far this week the August08 gasoline contract is experiencing an inside trading week, with both stochastics and rsi's in overbought territory. Coming into tomorrow's session we would look for prices to retrace some of their gains, looking for a test of the \$3.4500 support level. The August08 heating oil contract experienced rather large volume today, as speculation as to why, circulated the market place. One source close to the industry had suggested that there was significant end user buying in the August08 contract. The August08 heating oil crack spread also reflected active play today, posting a range of \$24.05 to \$28.07, but was unable to sustain strength once reaching the \$28.00 level. As with the gasoline, we would expected heating oil to give back some of its gains tomorrow, looking for a test of the \$3.8215 level, where prices propelled from. Open interest for crude oil is 1,287,821 down 18,254, August08 317,089 down 2,281, September08 142,643 down 5,041 and December 08 171,967 down 7,049. Total open interest for heating oil is 225,763 up 2,970, July08, 18,380 down 4,216, August08, 60,134 up 4,787. Total open interest for gasoline, 265,006 down 5,165, July 20,341 down 9,248, August08, 75,468 up 2,914.

August Crude Support	July Crude Resistance
131.30, 127.76, 126.77, 122.05, 120.60, 114.85, 108.95, 98.20, 85.40	137.35, 141.00, 143.29, 150.00
Heating oil support	Heating oil resistance
3.8215, 3.6800, 3.5450, 3.5100, 3.3500, 3.1680, 3.0980	4.0338, 4.0475, 4.0640, 4.1200
Gasoline support	Gasoline resistance
3.4500, 3.3400, 3.3250, 3.3000, 3.1760, 309.20, 3.0730, 3.0400, 3.0250, 2.9255	3.63.45, 3.755, 34655