



ENERGY RISK MANAGEMENT

Howard Rennell, Pat Shigueta
& Karen Palladino

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

www.e-windham.com

ENERGY MARKET REPORT FOR JULY 2, 2008

The US Navy's Fifth Fleet said the US will not allow Iran to block the Strait of Hormuz and would defend its ships in the waterway. The head of Iran's Revolutionary Guards said that Iran would impose controls on shipping in the Gulf and the Strait of Hormuz if it was attacked. Meanwhile, Iran's Oil Minister Gholamhossein Nozari said Iran will remain a reliable source of supply but will react if threatened. He said Iran would react "fiercely" to any attack against it. He reiterated Iran's view that world oil markets have enough supply, although he added that his country was able to add production to the market if there was a need. He

Market Watch

Pemex said it delivered 240,000 barrels of gasoline and diesel on Tuesday to the northern state of Baja California. It was the second emergency shipment in a month to increase supply at stations that border the US. Pemex sent 300,000 barrels of diesel to the area on June 20 after reports of shortages that forced motorists to wait for hours to fill up as drivers from the US crossed the border in search of cheaper fuel. The AAA said prices for diesel and gasoline are about \$3/gallon in Mexico compared with \$4.77/gallon for diesel and \$4.09/gallon for gasoline in the US.

Mexico's Finance Minister Agustin Carstens said a proposed reform to overhaul the country's oil sector would not be enough to reverse Pemex's problems. Proponents of the reform plan say it could increase declining output and reserves by hiring experienced foreign companies under performance based contracts to speed up Mexico's entry to the deep-sea oil sector. However opponents are against loosening state control of the oil sector. Analysts expect President Felipe Calderon's proposal to be heavily watered down.

Adair Turner, who will become chairman of the UK's Financial Services Authority in September said there is no significant evidence that speculation in the London futures markets is helping to push the oil price to record highs. He said there are good fundamental supply and demand factors to justify the rise in oil prices, including the outages in Nigeria and growing demand in China.

Italy's government plans to request the implementation of a European Union rule on market manipulation to curtail commodities speculation that it blames for the increase in oil prices.

Italy's ENI said oil prices will continue to increase until western countries rein in their demand. ENI's chief executive Paolo Scaroni said the price may increase to \$200/barrel, spurred by strong demand and speculation. Separately, he stated that ENI and Brazil's Petrobras agreed to cooperate in exploring for and producing crude and natural gas, refining heavier oils and developing new biofuel technology. In regards to Iran, he reiterated ENI's commitment to continue working in Iran despite pressure from the US government to exit the country.

Indonesia's President Susilo Bambang Yudhoyono said oil subsidies may increase to \$22.2 billion this year if crude prices average \$140/barrel and urged parliament to work with the government to handle the issue.

DOE Stocks

Crude – down 2 million barrels
Distillate – up 1.3 million barrels
Gasoline – up 2.1 million barrels
Refinery runs – up 0.6%, at 89.2%

also stated that Iran plans to increase its oil output capacity to 5.3 million bpd by 2014 from 4.35 million bpd. He said Iran is seeking international help to develop its crude reserves.

Separately, Iran's Foreign Minister Manouchehr Mottaki said a new process was underway in the nuclear crisis with the West. He said there was a possibility of arriving at a

multi-faceted solution. Separately he dismissed reports speculating about a possible attack by Israel on Iran's nuclear facilities. He said the eventuality of Israel entering into a military conflict with Iran is next to zero.

An Iranian official warned President Mahmoud Ahmadinejad against ruling the country with slogans, in the latest high ranking warning over his provocative rhetoric. The comments come after a top adviser to Iran's supreme leader Ayatollah Ali Khamenei warned against provocative remarks on the nuclear crisis.

US President George W. Bush said that diplomacy was the first option to address Iran's nuclear program, which he is concerned could be used to build a nuclear weapon. However he reiterated that all options were on the table.

Speaking at the World Petroleum Congress, OPEC's Secretary General Abdalla Salem el-Badri stood by the organization's statements that oil prices were supported by speculation, not oil shortages. He said 70% of crude contracts on the NYMEX are held by speculators and added that some form of regulation is needed. He said there is no shortage of physical crude as supply is higher than demand.

Venezuela's Oil Minister Rafael Ramirez said the price of oil appears to have reached equilibrium of \$140/barrel.

The executive director of Nobuo Tanaka said sought to dispel the impression that its most recent report was excessively bullish for oil prices. He said the report was bearish in the short term for oil prices. He also said oil demand destruction is possible.

More than 100 UK truckers converged on London in a demonstration that tied up traffic in the city's center as they approached the Houses of Parliament to demand lower diesel prices. Some 500 trucks were expected to join the protest.

India's government and a union leader said an estimated four million truckers went on strike on Wednesday to press for uniform diesel prices and protest an increase in taxes. The strike was called after talks with the government failed late Tuesday.

Refinery News

Shell reported a problem that shut the flare gas recovery compressor at its 158,000 bpd refinery in Martinez, California.

BP Plc reported a brief upset on a fluid catalytic cracking unit at its Texas City, Texas refinery. It said operations were not impacted due to the problem.

BP Plc also reported that it plans to shut half of its 400,000 bpd Rotterdam refinery in the Netherlands for about 10 days in July.

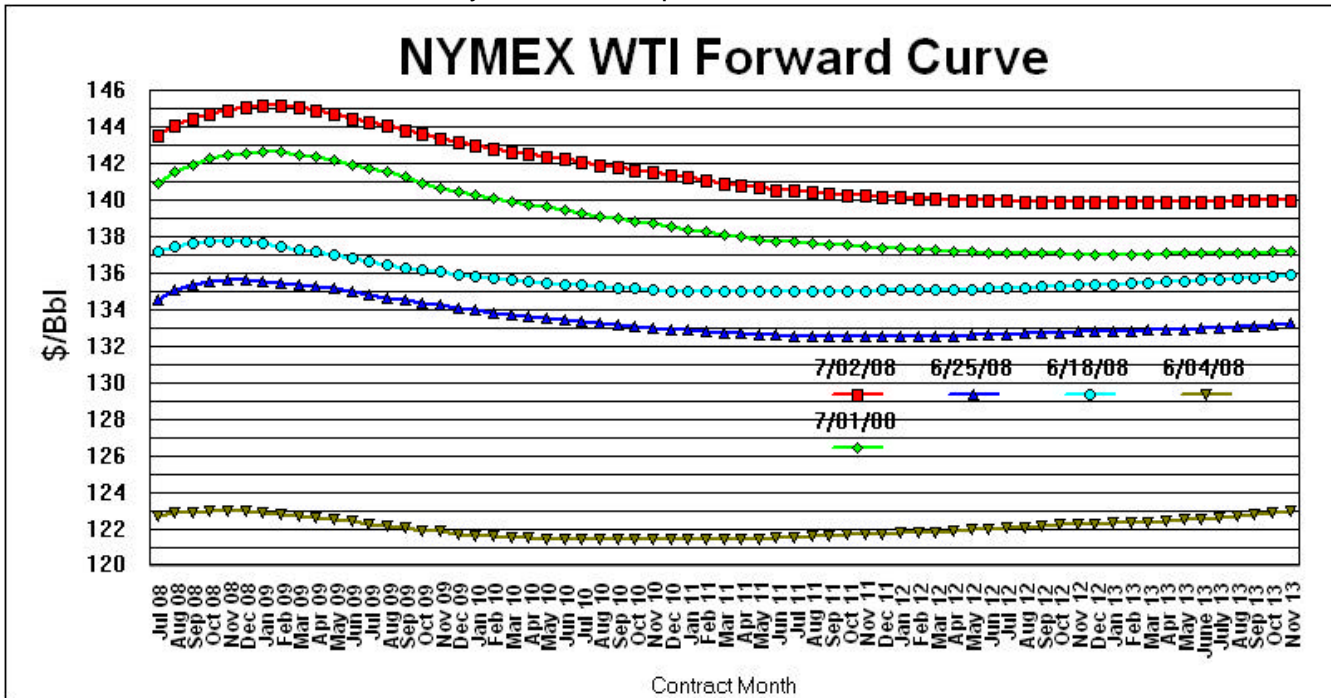
June Calendar Averages

CL – 142.27

HO – 400.75

RB – 353.14

TonenGeneral Sekiyu was ordered to shut its 156,000 bpd Sakai refinery on Tuesday night following a fire. It is not known when the refinery will resume operations.



South Korean refiners will keep July crude runs steady from June as negative fuel oil cracking margins discourage them from lifting runs after heavy maintenance last month. SK Energy, GS Caltex, S-Oil Corp and Hyundai Oilbank are expected to run 2.25 million to 2.26 million bpd in July.

The Petroleum Association of Japan reported that crude oil stocks fell by 6.07 million barrels on the week and by 12.28 million barrels on the year to 98.77 million barrels in the week ending June 28. It reported that Japan's gasoline inventories fell by 970,000 barrel on the week but increased by 1.85 million barrels on the year to 14 million barrels. It reported that kerosene stocks fell by 460,000 barrels on the week and by 4.97 million barrels on the year to 10.84 million barrels. It reported that crude runs increased by 160,000 bpd on the week to 3.63 million bpd. Refinery utilization increased to 74.3% from 71% of capacity the previous week.

China's Sinopec has purchased an additional 50,000 tons of diesel for July delivery, bringing total purchases for the month to 250,000 tons, unchanged on the month.

Traders and shipping sources stated that Singapore is shipping 155,000 tons of jet fuel to Northwest Europe this month to cover tight supply in the region as refiners cut runs. They also stated that Singapore is shipping 65,000 tons of jet fuel to Northwest Europe.

Indonesia is increasing its term sweet crude purchases by 21% to 3.4 million barrels a month this quarter, as it aims to process more fuel to limit imports of oil products. Together with spot purchases, Pertamina is expected to import 4.6 million barrels of sweet crude for July and 6.35 million barrels for August.

Lithuanian oil terminal Klaipėdos Nafta reloaded 740,000 tons of oil products in June, down from 750,000 tons in May. It reloaded 4.4 million tons of refined fuel during the first six months of the year compared with 2.9 million tons in the same period last year.

Production News

A Venezuelan newspaper, El Tiempo, reported that PDVSA and three unions reached an agreement settling a strike in the Orinoco Belt that started on June 30. Conflict may restart if the agreements are not honored quickly. Earlier PDVSA said its operations in the Orinoco Belt were normal, denying claims by labor union leaders that a strike had shut four pumping and upgrading projects. The executive secretary of Fedepetrol union said about 4,000 workers were on strike.

Nexen said it expects its Long Lake oil sands project to start up later this summer or in the fall. However it said it wants further clarity on any future CO2 emission restrictions it may face before deciding on a second phase.

According to a Dow Jones Newswire survey, OPEC's crude oil production in June increased by less than 1% or 27,000 bpd on the month to 32.24 million bpd. Output by OPEC-12, excluding Iraq, increased by 0.43% or 127,000 bpd to 29.89 million bpd. Saudi Arabia's production increased to about 9.5 million bpd, up 285,000 bpd on the month. Meanwhile, Iraq's oil production fell by 100,000 bpd to 2.35 million bpd in June.

Nigeria's Oil Minister Odein Ajumogobia said Nigeria's oil production will increase to 2.2 million bpd soon from about 1.9 million bpd. It will reach 2.5 million bpd by mid-2009.

Angola's Petroleum Minister Desiderio Costa said crude oil production will reach 2 million bpd this year. Angola's Sonangol said production was expected to remain on a plateau for four to five years after reaching the 2 million bpd target.

A shipping agent reported that Iraq's crude oil exports from northern oil fields in June fell by 145,000 bpd on the month. Iraq exported an average of 300,000 bpd of its crude oil from its northern oilfields. Exports from the southern Basra terminal in June were also below the normal level of 1.6 million bpd due to rough weather.

Brazil's Petrobras plans to start its first production from a field in the so-called pre-salt area. The field lies in Brazil's Espirito Santo Basin. It expects initial production of between 10,000 and 20,000 bpd from the field.

Russia's Energy Ministry reported that Russia's oil production increased to 9.77 million bpd in June from 9.74 million bpd in May. It reported that the country's seaborne crude oil exports supplied to ports by Transneft fell to 2.84 million bpd in June from 2.91 million bpd in May. Production totaled 9.76 million bpd in the first half of the year, down 0.9% from 9.85 million bpd in the same period last year. Russian officials still hope production will slightly increase this year as the government seeks to avert the first annual decline in output since 1998.

Russia's migration service said it had approved working permits for key managers of TNK-BP, easing fears of a temporary exodus of foreign staff. It said work permit requests from a total of 49 top foreign executives from TNK-BP would be cleared within 10 days and their visas would be automatically extended.

Italy's ENI said Kazakhstan's Kashagan oilfield, which has suffered severe delays, is on schedule. It said there was no delay in the project after its partner ExxonMobil blamed Kazakhstan's government for delaying the project. ENI said it was more optimistic that it will begin producing oil in 2013.

Turkey's Prime Minister Tayyip Erdogan said Turkey may be able to meet half of its oil demand in 2015 due to exploration and production in the Black Sea and further afield.

OPEC's news agency reported that OPEC's basket of crudes increased further to \$136.94/barrel on Tuesday, up from Monday's \$136.03/barrel.

Market Commentary

A decrease in crude oil stocks of 1.98 million barrels, coupled with a weak dollar, pushed crude oil to yet another record high of \$144.15. Products followed crude oil higher, with heating oil, basis the August08 contract, posting a gain of 0.1404 at one point during the trading. Today's extended gains in crude oil, led the August08 contract to settle above the congestion pattern for a second day in a row. For tomorrow, prices should extend their gains, making an attempt to touch the \$145.13 trendline basis a weekly bar chart. The congestion channel for the August contract began on June 6th. Since then, the August contract has gained \$16.18, however the August08/September 08 crude oil spread has lost .88 cents. With storage tight and quite costly at the time, the crude oil is being bought on an as need basis, rather than storing it. This is causing a weaker front month spread. Should things heat up in the Mideast over the next month, the front month spread should deepen in contango, helping to pay for the cost of storage. Once again, gasoline failed to settle above the congestion top set at \$3.5679. The price of the August08 contract has been trading within the congestion pattern of \$3.2997 and \$3.5679 since June 6th and despite two penetrations of the top of the pattern, it has not been able to settle above it. For tomorrow, we would expect that the gasoline would follow both the crude oil and heating oil higher and attempt a settlement above the aforementioned channel top. As we expected, the August gasoline lost value against the August crude oil, with this crack spread giving up \$1.88 on the day. With demand for gasoline, based on our figures, falling 1.35% on the week and high prices to continue to impact demand, we would look for further weakness on this spread. Heating oil extended its unseasonable gains, achieving another record high of \$4.0925. While demand for distillate, as reported by the DOE, fell 0.5%, our numbers indicate a build in distillate demand of 5.57%. This helps to explain the hefty gains in this product. The projected target, based on the congestion range of \$3.7104 and \$4.0359, is \$4.3614. While this level may seem a bit aggressive, so did \$150.00 crude oil. Open interest for crude oil is 1,294,480 up 8,913, August08 288,297 down 1,554, September08 151,360 up 4,881 and December 08 179,607 up 1,184. Total open interest for heating oil is 220,023 down 195, August08, 62,989 down 2,544 and September 08, 29,868 up 1,009. Total open interest for gasoline is, 247,734 up 1,582, August08 75,801, up 307 and September, 44,279 up 850.

August Crude Support	July Crude Resistance
143.45, 138.60, 133.70, 131.95, 85.40	145.13, 146.48, 149.41, 150.00
Heating oil support	Heating oil resistance
3.8215, 3.6800, 3.5450, 3.5100, 3.3500, 3.1680, 3.0980	4.1200, 4.3614
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