



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JULY 11, 2008

The Jerusalem Post reported that sources in the Iraqi Defense Ministry said Israel Air Force war planes are practicing in Iraqi airspace and land in US airbases in the country in preparation for a potential strike on Iran. According to the sources, Israel Air Force jets arrive during the night from Jordanian airspace, enter Iraq's airspace and land on a runway near the city of Haditha. They said the jets were practicing for a raid on Iran's nuclear sites and However, Iraq's Defense Ministry said it had no knowledge of any Israeli air force drills in its airspace. Also an Israeli government spokesman denied the report. He said the report was erroneous.

Israel's Defense Minister Ehud Barak

Market Watch

BP's chief economist Christof Ruhl said political pressure on regulators to exclude certain investors, such as pension funds, from the oil market is nonsense and will distort prices.

According to the US Agricultural Department, ethanol makers are scaling back on production and will use slightly less corn to make the alternate fuel. It said 2.95 billion bushels of corn would be used in the year that ends on August 30, down from 3 billion bushels and 3.95 billion bushels or 25% of this year's crop will be used to make ethanol in the marketing year that opens September 1. It is down 50 million bushels from its previous estimate.

The Economic Cycle Research Institute said its Weekly Leading Index increased to 132.5 in the week ending July 4 from 131.2 during the previous week. The rise in the index was due to higher commodity prices and stronger housing and was partly offset by lower stock prices. The index's annualized growth rate increased to negative 6.1% from minus 6.3%.

The IMF's managing director Dominique Strauss-Kahn said the world's economy is teetering between recession and inflation. He said US growth in the first quarter was better than expected at 0.9% but anticipated world economic recovery only in the first or second quarter of 2009. He said it was difficult to predict when inflation may start falling, as there was no clear idea when oil prices may fall or when food supply and demand balances may correct themselves. He said the current price of oil at about \$130-\$140/barrel cut global economic growth by 1%.

Iraq's Industry and Minerals Minister, Fawzi al-Hariri said Iraq hopes by year-end to conclude production sharing deals with foreign companies to renovate 35 major state industries, including a petrochemical complex.

The NYMEX announced that margin requirements for non-member customers on its RBOB futures contract, RBOB financial contract and RBOB calendar swap contract will increase from \$12,150 to \$12,825 for the spot contract, effective at the close of business Monday, July 14. The margin requirements for the second through fourth contract months will increase from \$11,475 to \$12,150. Margins for the first month of the miNY RBOB gasoline futures contract will increase to \$6,413 from \$6,075 for customers. It also announced that margin requirements for non-member customers on its NY Harbor Heating Oil futures contract, Heating Oil calendar swap contract and financial contracts will increase from \$11,275 to \$11,550 for the spot contract. The margin requirement for the second through fifth contract months will increase from \$10,725 to \$11,275. Margins for the first month of its miNY heating oil futures contract will increase to \$7,088 from \$6,919.

July Calendar Averages

CL – 141.25
HO – 398.46
RB – 349.18

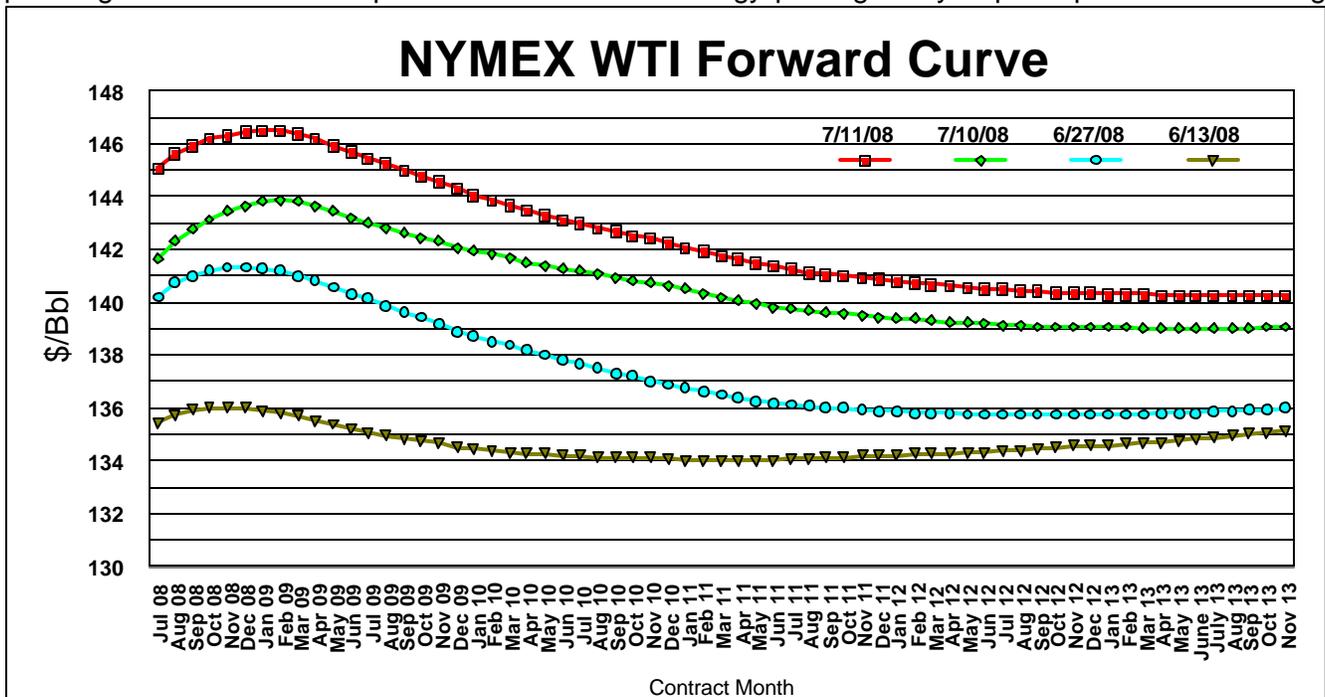
and armed forces chief Lieutenant-General Gabi Ashkenazi will separately visit Washington this month for discussions on Iran's nuclear program. Diplomatic sources said Israel's Defense Minister will hold three days of talks starting Monday with senior Bush administration officials including Vice President Dick Cheney and Defense Secretary Robert Gates. Israel's armed forces chief Lieutenant-General Gabi Ashkenazi is scheduled to visit Washington around July 25.

A senior Iranian cleric warned Israel and the US that they would regret any attack against Iran but denied any aggressive intent towards Israel. Separately, the White House said that Iranian missile tests did not change the US determination to resolve the crisis diplomatically.

Iran's chief nuclear negotiator, Saeed Jalili is scheduled to meet with European Union foreign policy chief Javier Solana for talks on Iran's disputed nuclear program. The visit follows a visit to Iran in June when the EU foreign policy chief presented a package of incentives proposed by world powers to coax Iran to halt its nuclear program. Iran has offered its own package to resolve the standoff. They will discuss the common points in the packages proposed by world powers and Iran.

Senators Joseph Lieberman, Maria Cantwell and Susan Collins on Friday introduced a bill that would eliminate a swaps loophole that allows institutional investors to invest in index funds that circumvent existing position limits. The bill would impose caps on the number of futures contracts that may be held by any one investor. Large institutional investors could circumvent the position limits by investing in over-the-counter markets. Senator Cantwell said the growth in the futures market was explosive adding that investments in derivatives in 2000 totaled \$50 trillion and increased to \$517 trillion by 2007. The bill would require the US Commodity Futures Trading Commission to develop a methodology that allows investors to aggregate their positions on the exchanges and in OTC markets for purposes of regulatory enforcement of the position limits.

On Thursday, US House of Representatives Speaker Nancy Pelosi urged President George W. Bush to release a small amount of oil from the SPR to ease record oil prices. The White House rejected her request, saying the reserve is intended only for severe supply disruptions. House Democrats are also planning to increase US oil production with a new energy package they hope to pass in the coming



weeks. The legislation would speed the development of the National Petroleum Reserve in Alaska. The bill would also force US companies that hold rights to some 68 million acres in the lower 48 states to use them or lose them.

The Environmental Protection Agency said it assessing the impact flooding in the Midwest may have on the federal renewable fuel standard. It has not determined the effect the floods will have on the corn based ethanol mandate that requires blending 9 billion gallons of ethanol in the country's fuel supply this year. The agency is considering Texas Governor Rick Perry's request to cut the ethanol mandate by half this year.

Saudi Arabia will supply full contracted volumes of crude in August to East Asia and Europe, steady from July as refiners continue to shun extra barrels. Traders at two European refineries reported no change in Saudi allocations for August. Separately, Qatar's Oil Minister Abdullah al-Attiyah said he saw no demand for the additional crude that Saudi Arabia has pledged over the past few months.

Nigerian gasoline tanker drivers started an indefinite strike Friday over demands for an improved road network and lower diesel prices. The Secretary of the Petroleum Tankers Drivers Association said all lifting of petroleum products had been suspended as tanker drivers had been directed to stop loading in all depots across the country. A union official said the strike was not impacting the country's oil exploration or exports.

Nigerian gunmen kidnapped two German workers with a German construction firm in Port Harcourt on Friday. No group has claimed responsibility for the abductions.

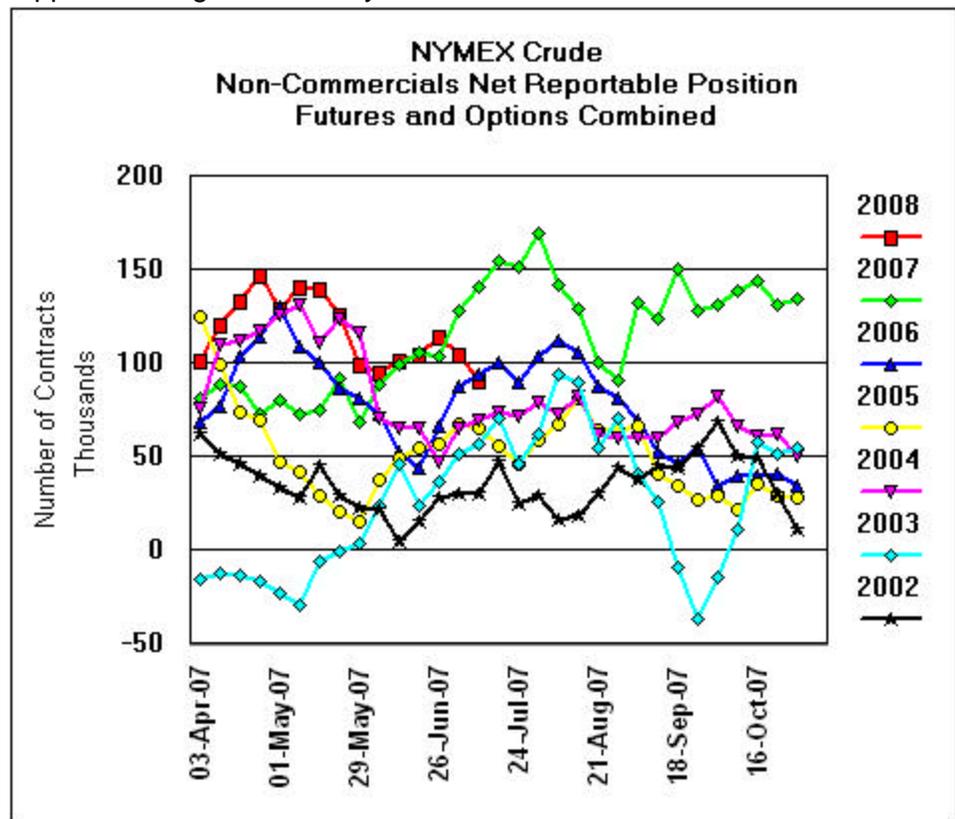
Refinery News

ExxonMobil Corp's 349,000 bpd Beaumont, Texas refinery restored feed and heaters to a coking unit after the unit's charge pump stopped working on Thursday afternoon.

Sunoco's fluid catalytic cracking unit at its Marcus Hook, PA refinery is seen back at normal operations by the end of next week.

Japan's Nippon Oil Corp and Nansei Sekiyu KK said they restarted crude distillation units earlier in the day as planned following scheduled maintenance. Nippon Oil restarted a 145,000 bpd crude distillation unit at its Sendai refinery while Nansei started a 100,000 bpd crude distillation unit in Okinawa.

Idemitsu Kosan Co is scheduled to restart a 50,000 bpd residue fluid



catalytic cracking unit at its Aichi refinery on July 17. The unit was shut on July 3, when it was shut down for inspection and repair of a hole in the unit. The refinery's 160,000 bpd crude distillation unit was seen operating at a reduced rate. However the shutdown did not have an impact on the refinery's oil product shipments.

Sakai and Takaishi City Joint Fire Department said it has approved the restart of TonenGeneral Sekiyu KK's 156,000 bpd Sakai refinery. The refinery was closed on July 1 due to a fire. A small oil leak from a pump at its crude distillation unit caused the fire.

Beijing Yanshan Petrochemical, a unit of Sinopec, plans to restart a 40,000 bpd fluid catalytic cracking unit in September following the completion of an upgrade to increase its gasoline production. The refinery halted operations at the unit about 7-8 years ago.

Ceylon Petroleum Corp has issued a tender to buy 24,000 metric tons of fuel oil for August delivery.

Thailand's crude oil imports in June fell by 11% on the month to 777,800 bpd following a reduction in output at one refinery. Imports of refined oil products fell to 100 bpd, sharply down from 4,400 bpd in May and 28,200 bpd last year.

Production News

Venezuela's President Hugo Chavez and Colombia's President Alvaro Uribe set to discuss possible joint development projects in the Orinoco belt when meet later on Friday.

CNPC produced 466,700 tons or 18,700 bpd more crude in the first half of 2008 compared with a year earlier.

Kuwait Petroleum Corp set its official selling price for August term supply at the Oman/Dubai average minus \$4.10/barrel, unchanged on the month.

OPEC's news agency reported that OPEC's basket of crudes increased to \$133.68/barrel on Thursday, down from Wednesday's \$133.16/barrel level.

Market Commentary

The oil complex once again rallied higher, with the crude market extending its gains more than \$5.60 as it rallied to a new record high of \$147.27 early in the session on the escalating concerns over Iran. Reports of Israeli Air Force planes conducting maneuvers in Iraqi airspace and using US military bases added to the speculation that the country was preparing to attack Iran and further added fuel to the already

skyrocketing market. The market however erased its early gains on profit taking and traded below the 143.00 level, where it found some

		Explanation	
CL	Resistance	150.00, 154.06	Basis trendline
		147.27	Friday's high
	Support	144.00, 142.95, 141.44	Friday's low
		135.43, 135.34, 135.14	50% (135.14 and 147.27), 62%, Previous lows
HO	Resistance	420.00	Friday's high
		415.86	
	Support	404.20, 402.10	Friday's low
		397.84, 393.59, 384.55, 382.05, 379.82	50% (379.82 and 415.86), 62%, Previous lows
RB	Resistance	370.00, 384.00	Basis trendline
		363.10	Friday's high
	Support	351.40, 350.17	Friday's low
		348.30, 344.81, 336.30, 335.77, 333.50	50% (333.50 and 363.10), 62%, Previous lows

support. The market retraced some of its losses and settled in a sideways trading during the remainder of the session. The oil market settled up \$3.43 at \$145.08. The market is seen retracing some of its sharp gains next week however the market's losses will remain limited amid the continuing rhetoric over the escalating tension in the Middle East. The August crude contract is seen finding support at 144.00, 142.95, 141.44 followed by its triple bottom from 135.43-135.14. The heating oil market rallied to yet another record high today in follow through buying from Thursday's session. The market, which posted a low of 402.10 in overnight trading continued to trend higher and rallied over 12 cents as it traded to a high of 415.86. The market however gave up some of its gains on profit taking and traded back below the 405.00 level. It later bounced back and settled in a sideways trading range during the remainder of the session. It settled up 3.92 cents at 407.66. The market is also seen retracing its sharp gains, with support seen at 404.20, 402.10 followed by 397.84 and 393.59. More distant support is seen at 384.55, 382.05 and 379.82. The RBOB market also rallied higher and ended the session up 5.23 cents at 356.32 after the market erased some of its earlier gains. Similar to the rest of the complex, the RBOB market rallied to a new high of 363.10 following the supportive news. The RBOB market is seen finding support at 351.40, 350.17, 348.30 and 344.81. More distant support is seen at 336.30, 335.77 and 333.50.

The Commitment of Traders report showed that non-commercials in the crude market cut their net long position by 14,902 contracts to 7,066 contracts in the week ending July 8th. The combined futures and options report also showed that non-commercial cut their net long position by 14,088 contracts to 90,618 contracts on the week. The funds increased their total short position by 10,450 lots to 151,716 contracts on the week. This was amid the market's sell off from its previous highs to its low of 135.14 earlier this week. Given the market's sharp rally in the last two trading sessions, the funds have likely increased their net long positions. The non-commercials in the product markets also cut their net long positions, with funds in the heating oil cutting their net long position by 2,554 contracts to 15,411 contracts while non-commercials in the RBOB market cut their net long position by 11,612 contracts to 49,309 contracts on the week. The non-commercials in the product markets have also reversed some their move in recent days following the markets' sharp move higher.