



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JULY 15, 2008

US President George W. Bush said there was no quick fix to lowering oil prices and added that oil in the US SPR should be saved for supply emergencies. He said if Congress passed legislation to increase US oil production, the psychology of the energy market would change.

US Federal Reserve chairman Ben Bernanke said restoring financial market stability was a top priority for the US Federal Reserve as a weakening housing market, tighter credit and rising oil prices threaten the economy. He said financial markets and institutions remain under considerable stress. The Fed

Market Watch

Lehman Brothers forecast an average price of \$130.00/barrel in the third quarter of 2008 and added that prices would fall to \$93/barrel on average in 2009 as demand falls.

Traders said about 120,000 tons of gas oil from the West Coast of the US are heading to Australia and China in July-August, due to high US stocks. Two cargoes are bound for Australia while the other two are bound for China. Australia has purchased 450,000 tons of diesel for loading in June and July so far after the Apache gas plant explosion early last month. Traders said Australia may resume normal diesel imports of about 100,000 tons from next month as Western Australia's gas supply recovers from the blast.

Saudi Arabia has offered to award Russia arms contracts if the Kremlin curtails cooperation with Iran. However Russia denied the offer was tied to relations with Iran. A Russian government spokesman denied the deal was linked to Iran and said any attempt to tie cooperation with Saudi Arabia to other issues was not right and not proper.

Malaysia's Petronas said it is still interested in operating in Iran. Petronas was expected to invest in a project to develop Phase II of the South Pars gas field along with Total SA, however Total SA said it will withdraw due to the political risk involved. Meanwhile, a senior National Iranian Oil Co executive said Total SA has not withdrawn from Iran. Total SA said last week that the company would not enter any new energy deals with Iran due to the heightened political risk.

ICE Clear Europe announced that it reached an agreement with LCH.Clearnet and Members on the transition date for the movement of all ICE Futures Europe and ICE over-the-counter trading positions from LCH to ICE Clear Europe. The transition will occur over the weekend of September 13-14, 2008.

July Calendar Averages

CL – 141.39

HO – 398.60

RB – 348.77

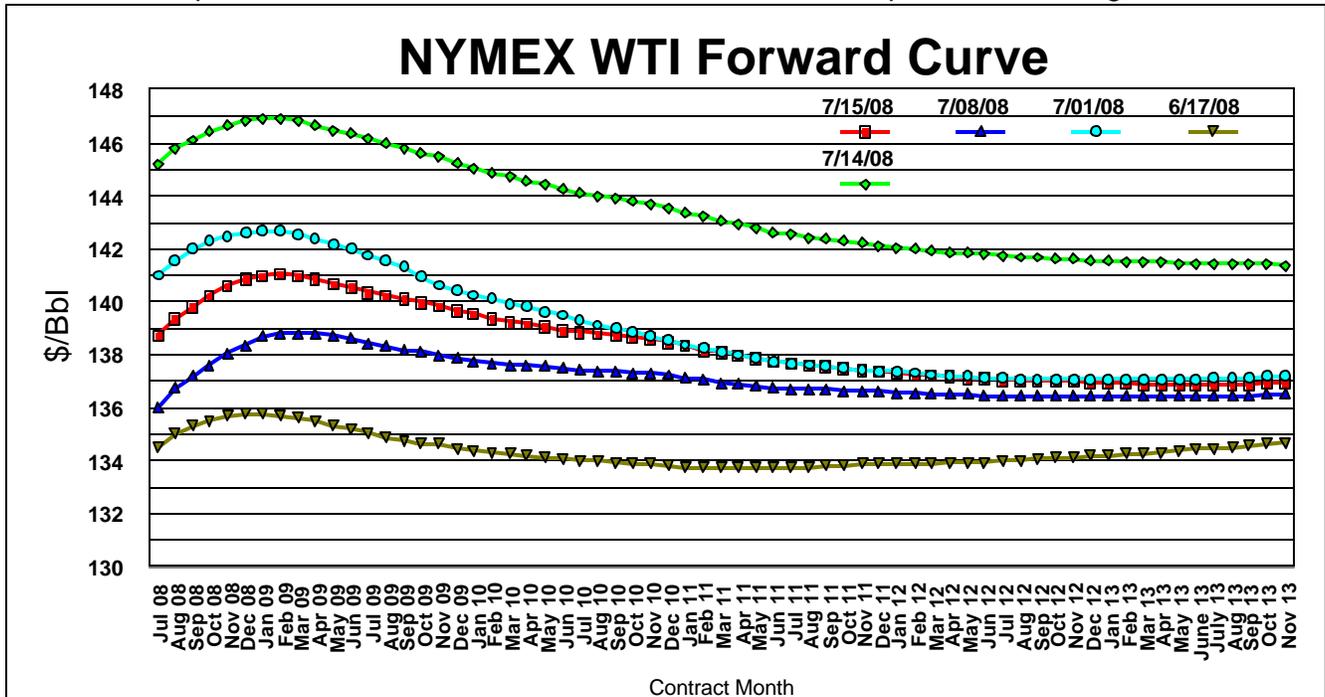
raised its projection for growth in 2008 to a range of 1% to 1.6% from a 0.3% to 1.2% range it forecast in April. In the face of costlier energy, the US central bank increased its inflation forecast to a range of 3.8% to 4.2%, up from its previous estimate of 3.1% to 3.4%. In regards to the oil

market, he said some speculation is a normal part of oil markets. He also said any manipulation of oil prices was the greatest concern of regulators.

A senior Iranian official denied a rumor in the oil market that suggested Iran had reached a deal on its disputed nuclear program with the US. Earlier, Iran's President Mahmoud Ahmadinejad said talks with the US are possible in the near future. However he said such talks would not happen at governmental level. According to an Iranian letter leaked on Tuesday, Iran has told big powers it will enter no more condescending talks meant to scrap its nuclear program but wants to negotiate a broader peace and security deal. Iran's Foreign Minister Manouchehr Mottaki's letter is a response to an improved incentives package from the six powers aimed at halting Iran's nuclear program. In the letter, Iran ignores the demand by the five permanent members of the UN Security Council and Germany that Iran suspend its uranium enrichment. It also ignores their proposal to ease the deadlock over preconditions for negotiations under which Iran would freeze expansion of enrichment for six weeks while steps to more sanctions would be frozen in order the launch pre-negotiations. Separately, French Foreign Minister Bernard Kouchner called for continued talks with Iran over its nuclear program but acknowledged that the chances of success were slim.

Brazil's Petrobras said its oil production returned to full capacity, despite a strike by its workers. It said production was expected to remain at full capacity until the end of the five day strike that started at midnight Sunday. Petrobras implemented a contingency plan to increase its output with emergency staff on most platforms in the Campos Basin. Meanwhile, union officials said there were no discussions planned with Petrobras and that they may extend the strike to the rest of the country and include refineries and shipping terminals. The national United Oil Workers' Federation is scheduled to meet on Tuesday to discuss a wider strike over profit sharing demands.

In its Monthly Oil Market said OPEC cut its forecast for world oil demand growth in 2008 for a fourth time this year and said demand would fall in 2009. It said oil demand will increase by 1.03 million bpd this year, 70,000 bpd less than the previous forecast. World oil demand this year is estimated to increase to 86.81 million bpd. It also said world consumption would increase by 900,000 bpd in 2009 to 87.71 million bpd while supply from non-member countries would expand at a faster rate of 940,000 bpd. It estimated that the need for OPEC oil would fall to an average of 31.24 million bpd in 2009 from 31.95 million bpd in 2008. It also estimated that total OPEC crude production averaged 32.29 million



bpd in June, up 124,000 bpd on the month due to higher output from Saudi Arabia that offset lower production in Iraq and Venezuela. Saudi Arabia's oil production increased by 171,000 bpd in June to 9.35 million bpd.

The IEA's executive director Nobuo Tanaka said oil markets are expected to tighten again after easing in 2009/10. He said oil prices remained very high and overall world consumption would continue to grow despite declining demand in major industrialized countries. However he said the situation would improve by 2009 thanks to new investment in production.

OPEC's President Chakib Khelil said high oil prices are the result of geopolitical factors and the declining US dollar.

A Saudi oil official said Saudi Arabia will be able to pump at 12.5 million bpd for as long as the market needs when new capacity comes online next year. The official said Saudi Arabia was producing 9.7 million bpd in July and had no plans to change its output in August. BusinessWeek reported that Saudi Aramco, which will hold 12 million bpd of total Saudi capacity, would only be able to produce at full capacity for a short time before reducing output to 10.4 million bpd.

Venezuela's Oil Minister Rafael Ramirez said oil prices are likely to continue rising and will never again fall below \$100/barrel. He said there was no need for OPEC to hold an emergency meeting or change output levels since high prices are due to geopolitical tensions, financial speculation and continued declines in the US dollar.

The EIA reported that US crude oil imports averaged 9.657 million bpd in May, down 264,000 bpd from April's 9.921 million bpd. Canada remained the top supplier in May, with 1.84 million bpd, down 112,000 bpd on the month. Saudi Arabia remained in second place, increasing its crude oil exports to the US by 126,000 bpd to 1.579 million bpd from 1.453 million bpd in April. Mexico's exports to the US fell by 143,000 bpd to 1.116 million bpd while Venezuela's oil supplies to the US increased to 1.03 million bpd from 1.019 million bpd in April.

According to a report by MasterCard Advisors LLC, US gasoline demand increased by 0.03% or 3,000 bpd on the week to 9.429 million bpd. In the latest four weeks, demand was down 3.5% on the year amid the high gasoline prices. Demand for gasoline was the lowest in the West Coast, where the average gasoline prices are well above the national at \$4.42/gallon. It reported that the US average retail price of gasoline fell 0.1 cents/gallon to \$4.113/gallon.

Refinery News

A small flash fire at ExxonMobil Corp's Baytown, Texas refinery had no impact on production and customer needs were being met. It was unclear at which unit of the 563,000 bpd refinery the fire broke out.

Valero Energy Corp said a brief electrical problem at a crude unit at its Port Arthur, Texas refinery had no impact on production.

PDVSA is planning maintenance and expansion work on a fluid catalytic cracking unit at the Cardon refinery. An official had previously stated that PDVSA was planning a major four month operation to increase cat cracker capacity at the 640,000 bpd Amuay refinery.

China's June diesel imports increased to 960,000 tons as refiners rushed to take advantage of an increase in fuel prices. The imports also increased due to the imminent end of a three month tax rebate holiday and government pressure to ensure sufficient stockpiles ahead of the Olympic Games

in August. China's gasoline imports totaled 282,996 tons in June and more than offset 150,000 tons of exports. Separately, China plans to extend its value added tax rebate on imports of diesel and gasoline and subsidize crude shipments by PetroChina and Sinopec through the third quarter. China will give the two companies an 800 yuan or \$117.20 payout for every ton of crude oil it imports until September.

PT Pertamina has issued a tender to buy 170,000 barrels of fuel oil for August delivery to Jakarta as it plans to shut a refining unit for maintenance next month. It plans to import 2.4 million barrels of fuel oil in August, up from 1.6 million barrels this month.

Production News

Chevron said production has been restored at its 120,000 bpd Escravos oil pipeline in Nigeria, nearly a month after armed youths sabotaged it. Chevron was forced to declare a force majeure on Escravos shipments following the attack.

Royal Dutch Shell Plc lifted its force majeure on its Bonny oil supplies in Nigeria. It declared a force majeure on May 27 following a militant attack on the Nemba Creek pipeline.

Iraq's northern Kirkuk oil exports to Turkey stood at about 430,000 bpd on Tuesday after pumping was stopped intermittently for 12 hours over the weekend. An Iraqi oil official said Iraq's Kirkuk oil exports through the northern pipeline to Turkey has fallen because the Baiji refinery has restarted following a maintenance outage. Meanwhile, Iraq's oil exports through its southern oil terminal stood at about 1.7 million bpd on Tuesday, up from 1.1 million bpd on Monday.

Libya's top oil official said the country will cut production by 100,000 bpd to 1.7 million bpd starting in the next day or so for about a month as it performs maintenance work on two oil fields.

Kazakhstan's State Statistics Agency reported that Kazakhstan's crude oil and gas condensate production in the first half of the year increased by 7.1% on the year to 35.636 million tons. Its crude oil production in June increased by 15.4% on the year to 4.857 million tons. Its gasoline production fell by 8.4% on the year to 195,000 tons while its diesel production increased by 2.5% on the year to 337,000 tons and its fuel oil production increased by 46.4% on the year to 291,000 tons. It also reported that Kazakhstan's crude oil exports fell by 2.4% to 25.21 million tons in January-May.

Sinopec Corp plans to increase its crude oil production at its Tahe field by 14% this year to make it the firm's second largest crude producer. Tahe field will produce 6.09 million tons of crude or 122,000 bpd in 2008, up from last year's 5.36 million tons.

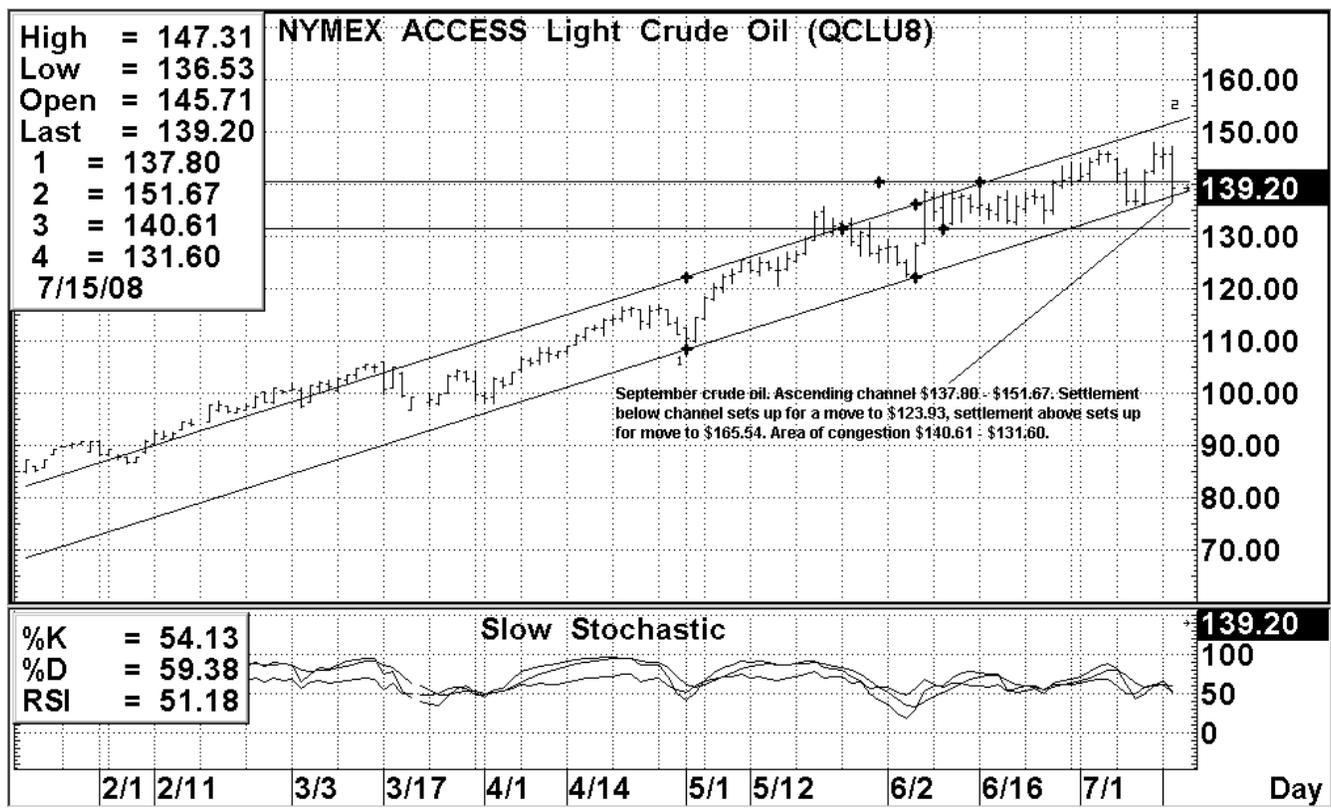
Petrobras said late Monday that the company had discovered oil in the Espirito Santo Basin near the Golfinho field. Initial estimates put recoverable reserves at 150 million barrels of oil.

Saudi Arabia approved the extension of an oil concession held by Chevron Corp in the Neutral Zone the country shares with Kuwait.

Chevron Corp's venture in Kazakhstan said the government granted it an exemption to a new duty on oil exports more than a month before the tax came into effect. TengizChevroil LLP has the right to freely export its crude oil and other hydrocarbon products including sulfur under its original 1993 production sharing contract. The government's export tax of \$109.91/ton of oil or about \$15/barrel was extended to 38 producers when it came into force on May 17.

Market Commentary

Energy demand was at the forefront of today's market plunge, as investors feared that the U.S. economic outlook was taking a turn for the worse. Federal Reserve chairman, Ben Bernanke expressed concern before the U.S. Senate today, that energy prices have had a tremendous impact on the purchasing power of U.S. households. This sent a wave of panic through the market place, as investors unloaded their length, and bears stepped in to take advantage of this downward move. Basis the September crude oil, prices traded below the ascending channel at \$137.80 but could not settle below this level. Slow stochastics have crossed to the downside, however are still in neutral territory. RSI's are also in neutral territory and are not indicating a change in trend. This move could prove to be a shake out of weak longs and another pause in the trend prior to resuming. We would look to sell any settlements below the channel bottom of \$137.80 and buy any break above the \$140.61 congestion top. As for the forward curve, the shape has not changed, with the front month out to the first quarter of 09 trading in contango and progressively trading in backwardation as the curve moves further back. This scenario may be attributed to the cost of storage and the inability to meet that cost. Greatly impacted by the demand factor, gasoline sold off considerably today, trading below the ascending channel and falling just .0093 cents shy of the congestion low of \$3.2997. Both the RSI's and the slow stochastics are pointing to the downside in neutral territory. We would look for gasoline to continue to be pressured given the economic outlook and its impact on demand. Therefore, any failed attempt to penetrate the \$3.5516 should be considered a selling opportunity. The September 08 gasoline crack, as expected traded lower today, losing a total of \$1.00. Slow stochastics for this spread are in oversold territory, with the RSI's holding above the 30% oversold threshold. With tomorrow being the day that DOE/API numbers come out, we would hold off on this spread until we can get a clearer picture of the demand number for gasoline. Heating basis oil basis the August 08 contract broke through support at \$402.86 and continued to tumble to a low of \$3.8390. We would continue to trade off of the \$4.0286 level, using it as a pivotal number. Should tomorrow's DOE/API numbers indicate a drop in demand, we would look for heating oil to test the bottom of the congestion area, which is set at \$3.7104. Open interest for crude oil is 1,320,820 down 35,209, August08 154,516 down 49,362, September08 280,530 up 18,583 and December 08 179,727 down 648. Total open interest for heating oil is 225,236



up 989, August08, 40,285 down 2,414 and September 08, 51,026 up 3,232. Total open interest for gasoline is, 247,777 down 228, August08 48,558, down 3,953 and September, 67,998 up 3,690.

August Crude Support	July Crude Resistance
131.60, 128.35, 122.25, 108.40, 85.40	140.60, 144.00, 147.90, 150.56
Heating oil support	Heating oil resistance
3.8215, 3.6800, 3.5450, 3.5100, 3.3500, 3.1680, 3.0980	4.0210, 4.0765, 4.1200, 4.3614
Gasoline support	Gasoline resistance
3.3000, 3.1760, 3.0920, 3.0730, 3.0400, 3.0250, 2.9255	3.6021, 3.755, 3.4655