



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR AUGUST 22, 2008

Russian Defense Minister Anatoly Serdyukov said all Russian forces were to withdraw from Georgian territory to South Ossetia by the end of Friday except for troops manning a security cordon outside the separatist zone. Under a French brokered deal, Russia's troops would not be allowed to control any Georgian towns or important roads. However Russia's Defense Minister said Russia will retain control over the highway

linking the Georgian capital to the sea even after completing a troop pullout. Meanwhile, the North Atlantic Treaty Organization's Supreme Allied Commander said Russia's withdrawal was progressing at a slow pace. Separately, the US on Friday accused Russia of failing to fully abide by a ceasefire agreement. A State Department spokesman said Russia has finally started to move their forces out of

August Calendar Averages

CL – 116.87

HO – 318.87

RB – 292.49

Market Watch

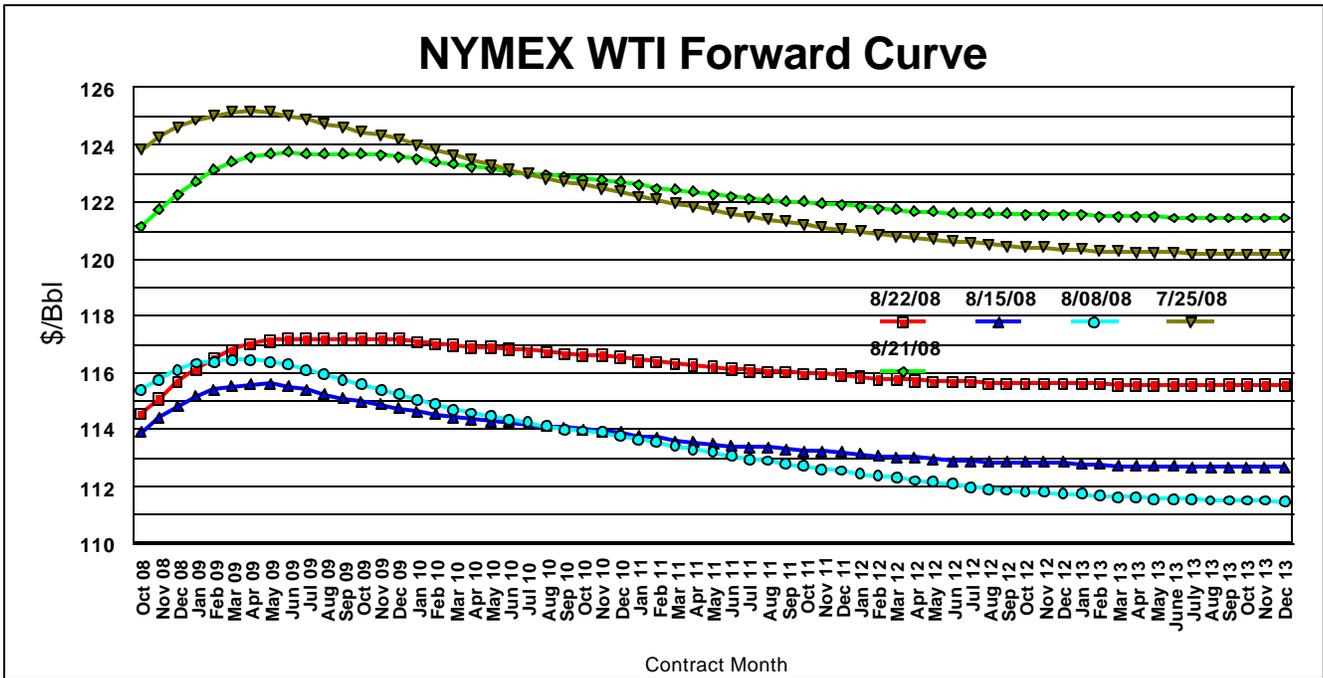
Gasoline retailers in the US and Europe are not passing on to consumers their savings from the fall in oil prices as they move to recover some of their losses from earlier in the year when oil prices were at their highs. While the price of crude has fallen \$33 or 79 cents/gallon from its peak above \$147, the US gasoline price has fallen only 37 cents/gallon to \$3.74/gallon. There is a lag time of about two weeks before lower crude prices are reflected at the pump and up to eight weeks before the full savings is passed on to consumers. However gasoline retailers are struggling and will be looking to make up some lost money.

Separately, according to the Oil Price Information Service, OPIS, the retail price of gasoline in the Lower 48 states averaged below \$4/gallon on Friday, the first time since May 14.

Iran's Oil Ministry said the head of the National Iranian Oil Co, Seifollah Jashnsaz will travel to China next week to broaden cooperation. He is scheduled to hold talks with senior officials from China's international oil companies.

CME Group Inc closed its \$8.2 billion acquisition of NYMEX Holdings Inc, giving it control of 98% of exchange traded US futures. The CME will also gain entry in emissions trading, freight derivatives and the Middle East exchange market through various NYMEX ventures. It has pledged to keep NYMEX's trading floors open in New York through 2012, after which it may consider shutting them down or moving them to Chicago.

Georgia but they have failed to live up to their obligations. A senior Georgian official accused Russia of lying about having completed its troop pullout. Later, the Georgian Interior Ministry stated that Georgian police were back in control of Gori.



Russia's military criticized NATO after the alliance sent warships to the Black Sea near Georgia for exercises, saying the move was unlikely to help efforts to stabilize the region. NATO described the exercises, involving US, German, Spanish and Polish vessels, as routine and stressed they were planned before the Georgia conflict started this month. The exercises started on Thursday and are expected to end September 10.

According to Petrologistics, OPEC's oil output is expected to increase by 450,000 bpd to 32.95 million bpd in August due to higher supply from Iran and Angola. Iran is expected to account for most of the increase, with production increasing to 4.05 million bpd from 3.65 million bpd in July. Angola has also been pumping more as new offshore fields come on stream. Output is forecast to increase to 2.07 million bpd in August, up 60,000 bpd on the month. Petrologistics also reported that Saudi Arabia is expected to pump 9.45 million bpd in August, down from 9.47 million bpd in July.

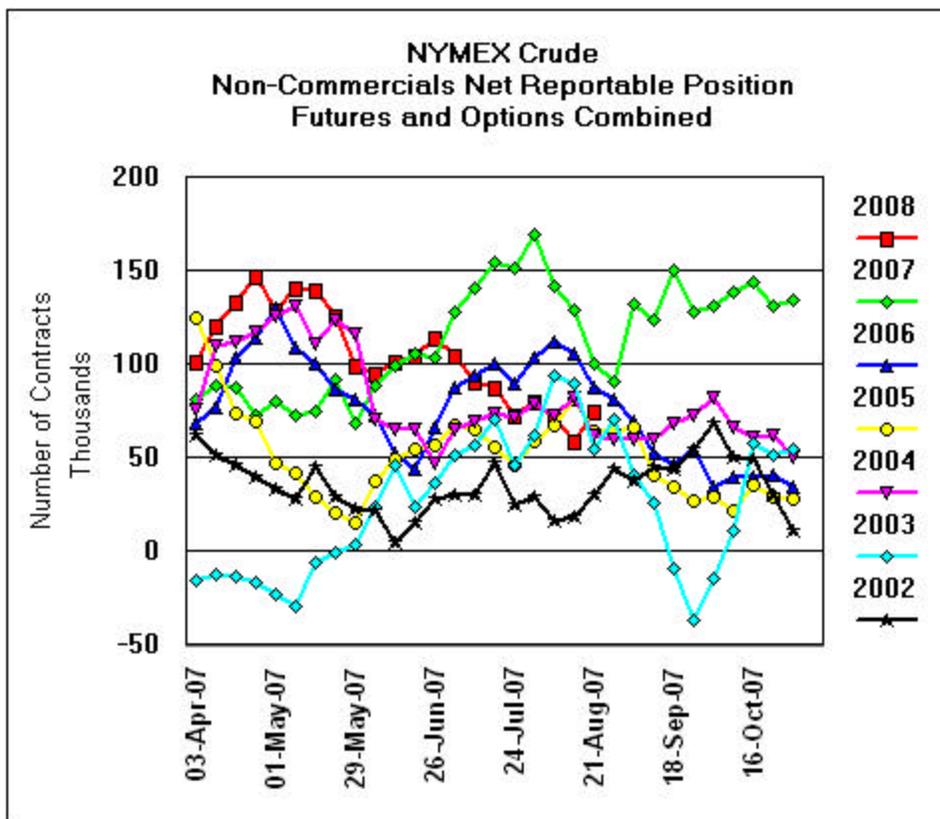
The AAA reported that the number of Americans traveling during the Labor Day holiday weekend will fall by the largest amount in at least eight years as travelers face high fuel costs and a slowing economy. The number of Americans who will travel 50 miles or more during the Labor Day weekend will fall 0.9% to nearly 34.38 million Americans. The number traveling by car will fall by 1.1% while air travel will fall about 4.5%. However, travel by train, bus and other modes of transport should increase by 12.5%.

Refinery News

Total Petrochemicals USA said it was restarting an isomerization unit at its 232,000 bpd Port Arthur, Texas refinery.

China's small, independent refineries have been operating at below half their capacity since the second quarter as they struggle to stay afloat amid record oil prices. The refineries ranging from 40,000 bpd to 120,000 bpd have been processing crude on behalf of Sinopec Corp and PetroChina, which opted to curb output.

China's oil demand growth reached a two year high in July. Implied demand increased 9.5% on the year to 7.81 million bpd. However the demand will likely fall in the autumn, undermined by high prices,



global economic woes and the end of official pressure to increase stocks for the Olympic Games. Implied demand for diesel increased by 22.6% on the year to 3.07 million bpd while gasoline demand increased by 22.7% on the year to 1.6 million bpd. In the January-July period, total demand increased by 6% on the year to 7.4 million bpd. China's General Administration of Customs reported that China's crude imports fell by 7.02% on the year to 13.79 million tons. China's crude imports in the January-July period increased by 8.26% on the year to 104.323 million tons.

Japan's Cosmo Oil Co began planned maintenance on the 80,000 bpd crude distillation unit at its Sakai refinery on Friday as scheduled. The unit is scheduled to remain shut until September 30.

Thailand's PTT Aromatics and Refining PCL has shut its 145,000 bpd Rayong refinery since August 21 for 27 days after leaks affected production.

South Korea's YNCC has restarted its No. 2 naphtha cracker and is operating at 75% of capacity. The 550,000 ton/year naphtha unit was shut early Thursday due to a glitch at its compressor.

Caltex Australia Ltd said it will likely shutdown its 105,000 bpd Lytton refinery in the first half of 2009.

South Korea's National Oil Corp said the country's commercial crude inventory at the end of July fell 20% on the year to 15.58 million barrels. Its crude imports in July fell by 1.6% on the year to 71.66 million barrels or 2.31 million bpd. It reported that domestic oil products demand in July fell by 3% on the year to 60.34 million barrels or 1.95 million bpd. Crude runs fell by 1.8% on the year to 72.32 million barrels or 2.33 million bpd.

Malaysia's Prime Minister Abdullah Ahmad Badawi said the country will cut petrol prices by 5.6% to 2.55 ringgit or 76.3 cents/liter. He also stated that diesel prices will be cut by 3.1% to 2.5 ringgit/liter. The new rates will take effect o August 23.

Production News

The chairman of Libya's National Oil Corp, Shokri Ghanem said Libya has lowered its oil output slightly due to a tank fire.

Pemex said production at the Cantarell oilfield fell by 36% or 556,000 bpd on the year and 43,000 bpd on the month to 1 million bpd. Mexico's exports in July fell by 21.7% on the year to 1.38 million bpd, mainly due to falling output at Cantarell.

OPEC's news agency reported that OPEC's basket of crudes increased to \$113.63/barrel on Thursday from Wednesday's \$109.77/barrel.

Market Commentary

As the dollar rebounded, energy markets sold off today. Lending additional pressure to prices were expectations that the Organization of Petroleum Exporting Countries will probably increase oil supply in August by 400,000 barrels a day, or 1.2 percent, as Iran releases crude oil held in storage, according to preliminary estimates from PetroLogistics Ltd. OPEC will next meet begin to review production targets on Sept. 9 in Vienna. BP Plc has restored shipments on the Caspian Sea Pipeline, which runs through Turkey. The market was unable to sustain the gains made yesterday. Crude oil basis a weekly spot continuation chart was unable to remain above the top trendline on a spot continuation chart. We must view this false breakout as an indication that any recent strength will be unable to gather steam. Demand continues to suffer and this is reflected in the recent sell – off of this market. With this week's weak finish, we would look for further downside potential next week. Based on the weekly spot continuation chart, the weekly descending channel is between \$115.60 - \$105.20. The December 08/December 09 crude oil spread remained weak in a much tighter ranch. The projected downside objective for this spread would be -\$2.65. The December 08/December 09 –300 put we wrote about yesterday, was trading again today. It appears that speculators are bearish on this spread, as open interest increased by 952 contracts. Gasoline was unable to maintain its strength today and settled below the \$2.8830 support level. With demand weakening and the U.S. summer driving season nearing its completion, gasoline should continue to come under pressure. Slow stochastics, which have been supportive of the recent run–up in prices, have now turned to the downside again. Percent K inched lower, while percent D moved higher. Should K cross D to the downside, this will be an indication the bearish trend in prices will continue. As with the gasoline, heating oil also came under pressure, experiencing a lower high and a lower low than that of yesterdays trading range. The leading moving oscillator, percent K has turn to the downside, while percent D edged higher. A cross of D below K will indicate that this market will once again resume its downward spiral.

Open interest for crude oil is 1,195,878 1,312, October 08 307,311 down 2,974, November 08 109,251, up 1,927 and December 08 181,561 up 1,691. Total open interest for heating oil is 219,979 down 46, September 08, 27,162 down 2,408 and October 08 46,514 up 655. Total open interest for gasoline is, 224,830 down 1,780, September 08, 38,138 down 3,368 and October 08 70,793 up 1,536.

The latest Commitment of Traders report showed that non-commercials in the crude market switched from a net short position of 9,130 contracts to a net long position of 11,659 contracts in the week ending August 19th. The funds increased their total long position by 12,254 contracts to 204,335 contracts on the week. The combined futures and options report showed that non-commercials in the crude market increased their net long position by 15,815 contracts to 74,617 contracts on the week. Given the market's move in the last few trading sessions, non-commercials have likely added to their net long positions. In the product markets, non-commercials also added to their net long positions. The combined futures and options report showed that non-commercials in the heating oil market increased their net long position by 1,435 contracts to 12,982 contracts and non-commercials in the RBOB market increased their net long position by 867 contracts to 45,957 contracts.

Crude Support	Crude Resistance
109.55,108.00,105.18, 85.40	128.60,132.05, 139.30, 144.00,147.90,
Heat support	Heat resistance
3.0540, 3.0229, 294.50	3.4574,3.798,3.6135,3.8215, 4.0210,
Gasoline support	Gasoline resistance
2.7014,2.6435, 2.5920	3.0300,3.0732, 3.1050,3.1460,3.1970, 3.2620