



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR OCTOBER 12, 2007

Turkey's Prime Minister Recep Tayyip Erdogan said Turkey would be ready to pay the price of any Iraq campaign if it decided to stage a cross border offensive against Kurdish rebels in Iraq. He said Turkey has been seeking the cooperation of Iraq and the US but there has been no crackdown on the Kurdistan Workers Party in Iraq. The Turkish parliament is expected to approve a government request to authorize Iraq campaign as early as next week.

Market Watch

The Labor Department reported that the US producer price index increased by 1.1% in September on rebounding energy prices. It was the largest gain in producer prices since February, when they increased by 1.2%.

According to DEBKAfile, its military sources reported that Syria placed its civil defense services on a state of preparedness and mobilized their reservists. Government and military hospitals in Syria have also been alerted. The measures were ordered Tuesday, October 9 and were in place within three days. However there was no change in the deployment of Syrian forces along the border with Israel. It reported that the measures and rhetoric indicated that Syria was convinced that either an American or Israeli assault or attacks by both against Syria and Iran were due shortly. Syria's President Bashar Assad has stated that the country had to be ready for any US or Israeli operation against Iran or Syria.

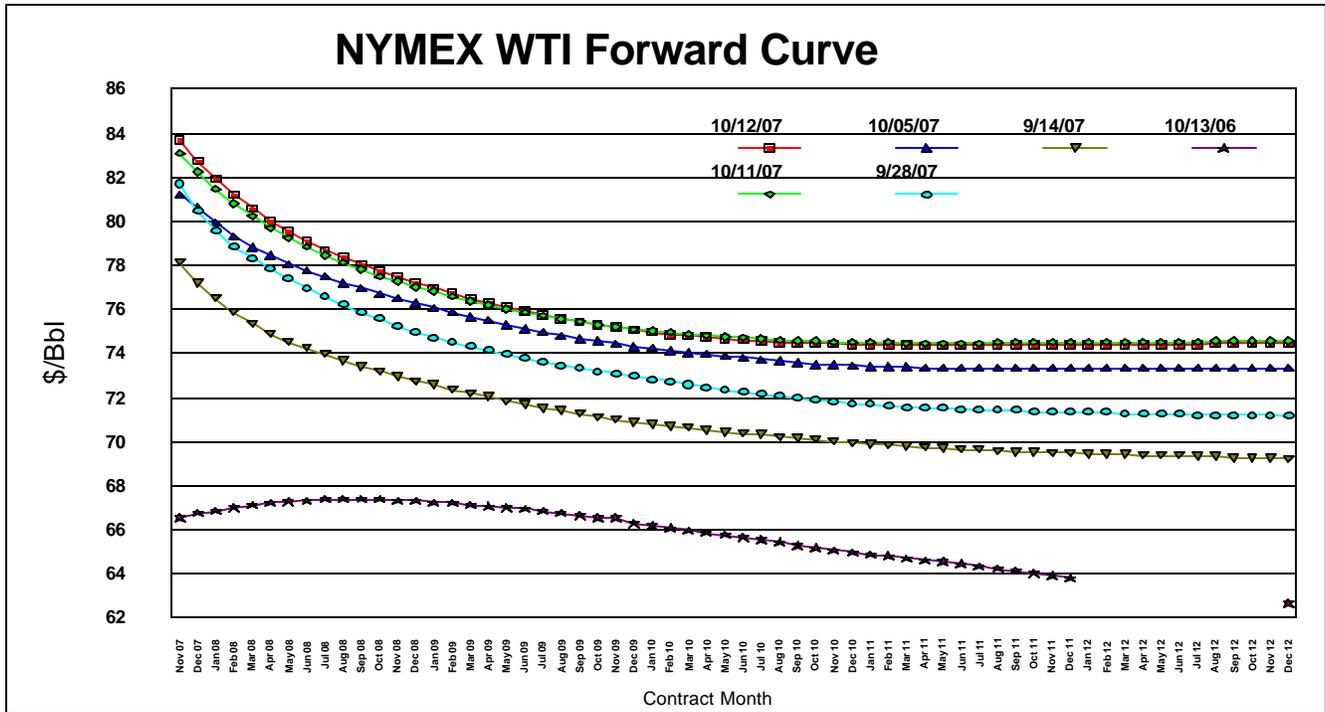
US Energy Secretary Samuel Bodman said high crude prices were being driven by fundamentals, not speculators. He said that tight oil output capacity meant producers did not have the flexibility to easily increase supplies as they had in the past. He also stated that the US plan to fill the SPR with royalty-in-kind oil would not have a material impact to oil prices. He said he was concerned about the impact of high oil prices on economic growth, even though he said that the US economy was resilient.

Refinery News

ExxonMobil's 326,000 bpd Fawley refinery is operating normally. Traders earlier in October said a catalytic cracking unit at the plant had production problems since late September.

Royal Dutch Shell shutdown its 33,000 bpd residue fluid catalytic cracker complex at its Singapore refinery more than a week ago due to an outage at the plant. The duration of the unplanned shutdown has not been confirmed as the damage is still being assessed.

India's Reliance Industries Ltd said it planned to restart a 330,000 bpd crude distillation unit in 7-10 days following the completion of planned maintenance that started on Thursday.



Production News

Nigeria's Finance Minister Shamsuddeen Usman said crude oil production from Nigeria's Niger Delta region looked set to continue its recovery in the coming months. He said Royal Dutch Shell's move to lift a force majeure on its Forcados facility pointed to increased supply. Currently, 450,000 bpd of Nigeria's crude production is offline as a result of the violence.

Inventories of most oil products in independent storage in the Amsterdam-Rotterdam-Antwerp area fell sharply on the year. Gasoline stocks fell 155,000 tons on the year to 595,000 tons in the week ending October 12. It was down just 5,000 tons on the week. Naphtha stocks fell by 29,000 tons on the year and by 3,000 tons on the week to 56,000 tons. Fuel oil stocks fell by 107,000 tons on the year and by 27,000 tons on the week to 393,000 tons while jet fuel stocks fell by 43,000 tons on the year but increased by 7,000 tons on the week to 327,000 tons. Meanwhile gasoil stocks increased by 52,000 tons on the year and fell by 8,000 tons on the week to 1.912 million tons.

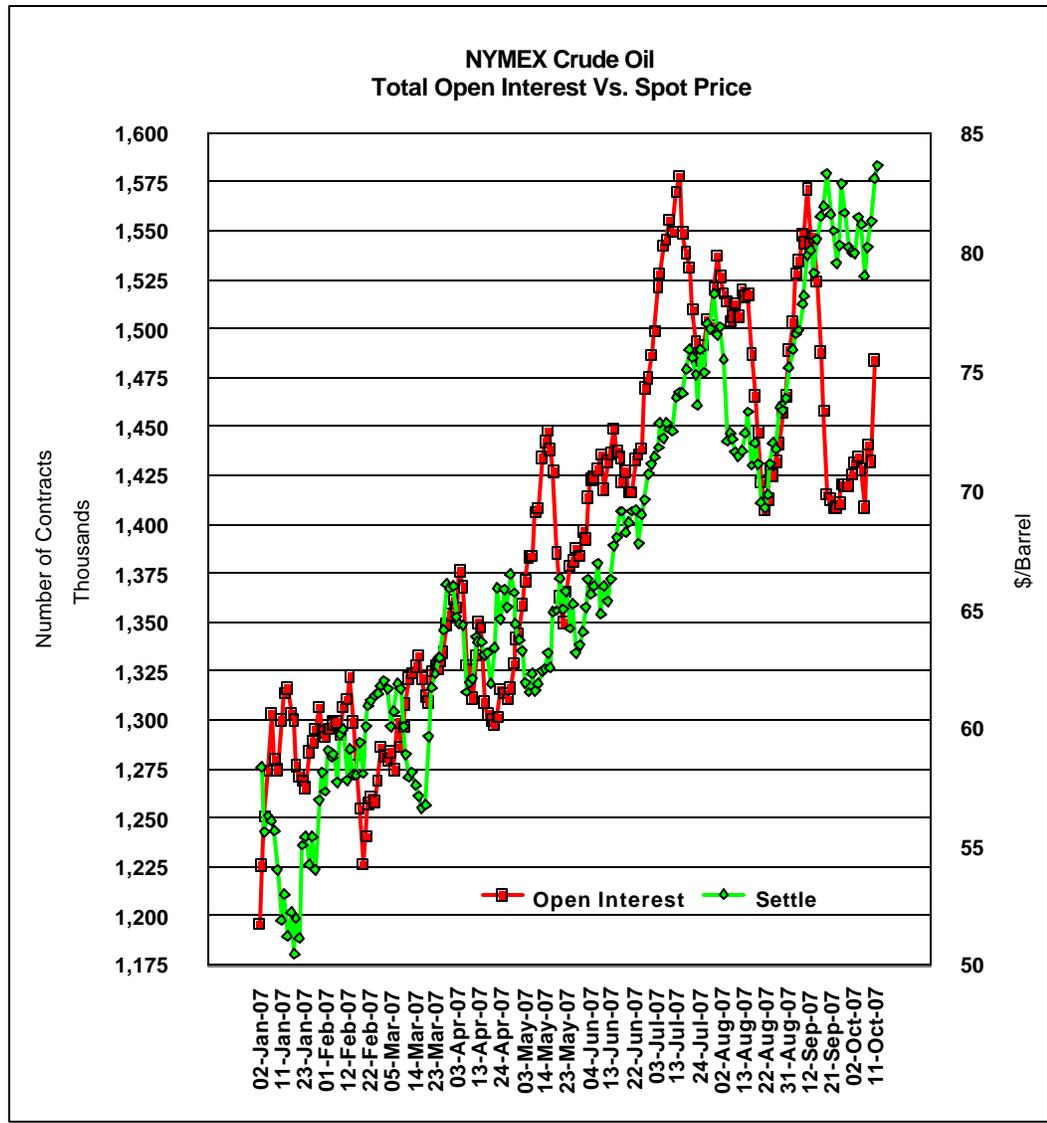
The Aberdeen Petroleum Report said UK oil production fell by 4% on the month in July to 1.45 million bpd.

Norway's Troll oil system is scheduled to load 205,000 bpd in November, up from 187,000 bpd in October.

According to Germany's MWV, total sales of oil products in Germany in September fell by 19% on the year to 6.47 million metric tons. It reported that gasoline sales fell by 6.9% to 1.77 million tons, diesel sales fell by 3.8% to 2.52 million tons, gasoil fell by 43.2% to 1.72 million tons and high sulfur fuel oil increased by 3.8% to 460,000 tons.

China's General Administration of Customs said the country's crude oil imports increased by 1.5% on the year to 13.66 million tons or 3.32 million bpd in September. Crude oil imports in the first nine months of the year increased by 13.6% on the year to 124.07 million tons. China imported 2.56 million

tons of oil products in September while imports in the January to September period fell by 8% on the year to 26.84 million tons. It reported that net oil product imports stood at 14.98 million tons over the first three quarters.



Total's chief executive Christophe Margerie said the company was targeting an oil and gas production growth of between 1.5 and 2% in 2007.

Iraq has cut the official selling price of Basra Light crude in November for the US and Europe while it raised the prices for Asia. SOMO set the November price of Basra Light bound for the US at second month WTI minus \$8.80/barrel, down from minus \$7.20 in October. It also cut the November price for crude bound for Europe to dated Brent minus \$4.85, down from minus \$3.85 in October. It however

increased the price of Basra Light crude bound for Asia to 45 cents below the Oman/Dubai average, up from minus 95 cents in October.

Kazakhstan's President Nursultan Nazarbayev has lowered its long term oil production forecast to 130 million tons by 2015, down 13% from its previous estimate of 150 million tons.

Pemex said it hoped to strike new cooperation agreements with foreign oil majors, including ExxonMobil Corp and Total. Pemex has been signing cooperation pacts with foreign oil companies to train staff in areas where Pemex lacks experience, such as deepwater drilling and marginal oil fields.

According to trading sources, domestic 0.2% sulfur diesel in Russia's Central Federal District reached a new record high on Thursday amid tight product availability. Prices for 0.2% sulfur diesel surged to Rb16,750/metric ton or \$673.12/metric ton. It is up from Rb15,750/mt two weeks ago. Sources stated

that product availability was tight as some suppliers delayed their September loadings in the domestic market after redirecting volumes for export amid record high international prices. Maintenance work at some Russian refineries was also understood to be exacerbating the tightness. TNK-BP's 134,387 bpd Saratov refinery and Bashneft's 23 4,962 bpd refinery have been shut for maintenance through October while the 243,000 bpd Moscow refinery has been operating at limited capacity.

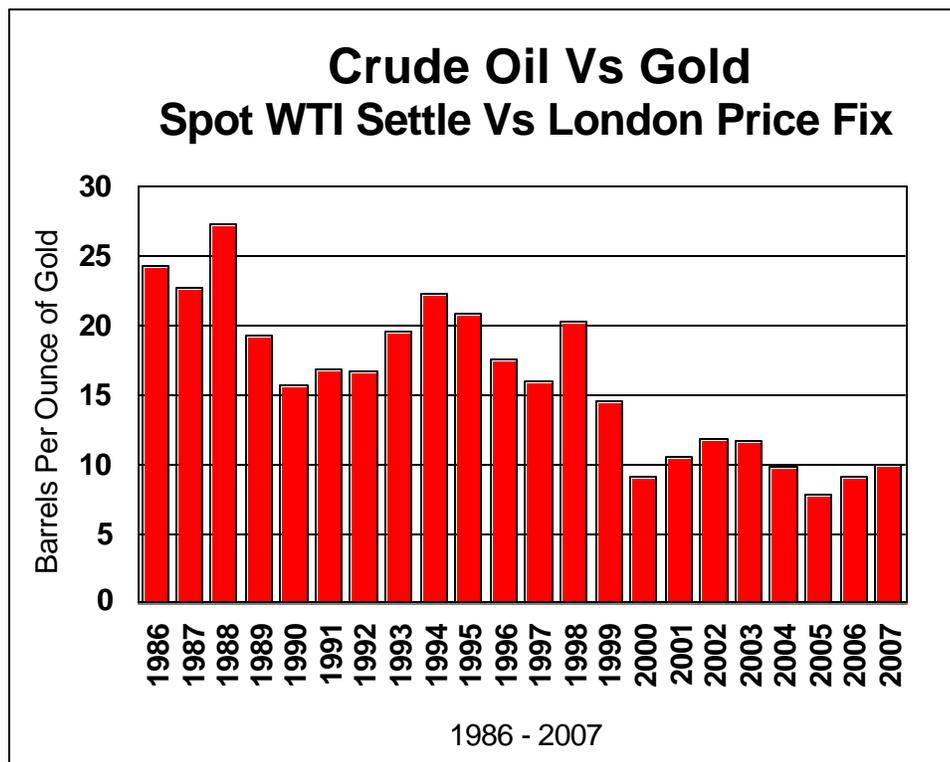
Market Commentary

With speculative interest ever growing in the energy markets, supported by concerns over Turkish/Iraqi tensions in the Mid-East and a winter expected to

		Explanation	
CL	Resistance	84.10, 84.58, 84.75, 84.99, 86.70	Friday's high
	83.08, up \$1.78	83.98, 84.05	
	Support	83.50, 83.35, 82.69	
HO	Resistance	227.11, 228.25, 235.41	Previous highs, Basis trendline Friday's high
	224.64, down 9 points	226.18	
	Support	224.50, 223.22	
RB	Resistance	211.30, 212.24, 215.65	Previous highs Friday's high
	208.51, up 1.85 cents	210.05	
	Support	208.00, 206.50, 204.78	
		203.19, 199.51, 198.05, 198.00	Friday's low Previous lows

be about 4% colder than last winter, crude oil prices made yet another record high, peaking at 84.05 on the trading floor. It appears that the market is taking less time to build a bottom prior to moving higher and even less time to record new highs. With total open interest up 51,326 and 44,918 of it in the December contract, bulls are still confident in their conviction that this market is not yet ready to give in. Non-OPEC production continues to be plagued by problems with new equipment, the U.S. dollar continues to be weak and global demand remains steady. All of these fundamentals are supportive of higher prices, but one must begin to wonder how high can prices go, before OPEC, in

fear of losing a political negotiating tool, will start to up production. Previously, we wrote about the front month spread during roll period and how it tends to widen. Had one been lucky enough to buy this spread at the onset of the Goldman rolls, they would be realizing a 30 cents profit right now. Our upside objective remains at 84.75 and possibly beyond. Total open interest in crude oil is 1,484,513 up 51,326, November 180,929 down 8,371 and December 371,702 up 44,908. Support for November, comes in at 83.35, 82.20,



80.50, 79.60, 78.35, 77.30 and 76.79. Resistance is set at 84.10, 84.75, 84.99 and 86.70. The RBOB market ended the session in positive territory as it remained well supported by the strength in the crude market ahead of the weekend. The market posted a low of 204.78 early in the session and quickly bounced off that level. It extended its gains to 3.39 cents as it rallied to a high of 210.05 as the crude market breached the 84.00 level in open outcry trading. The RBOB market later retraced some of its gains and settled up 1.85 cents at 208.51. Meanwhile, the heating oil market posted an inside trading day and settled down just 9 points at 224.64. The market posted a low of 223.22 in overnight trading and traded mostly sideways before some further buying pushed the market to a high of 226.18. The market retraced more than 50% of its earlier move and settled down 9 points at 224.64. The product markets are seen testing their recent highs after the markets held their support and continue to trend higher on the back of the crude market's strength. The RBOB market is seen finding support at 208.00, 206.50, 204.78, 203.19 followed by 199.51, 198.05 and 198.00. Meanwhile resistance is seen at 210.05, 211.30, 212.24 and 215.65.

The Commitment of Traders report showed that non-commercials in the crude market continued to build their net long position by 12,720 lots in the week ending October 9 to 69,190 lots. The combined futures and options report showed that non-commercial in the crude increased their net long position by 7,559 lots to 138,674 lots on the week. Given the market's move higher during the past few days and the large increase in open interest, non-commercials have continued to add to their net long position. The non-commercials in the RBOB market increased their net long position by 2,763 contracts to 47,145 lots while non-commercials in the heating oil market cut their net long position by 1,616 lots to 26,775 lots on the week.

