



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR OCTOBER 16, 2008

OPEC brought forward its extraordinary meeting to discuss the impact of the world economic crisis on oil markets to next Friday, October 24. OPEC previously planned to hold the meeting on November 18.

OPEC President and Algeria's Oil Minister Chakib Khelil said the ideal price for crude is between \$70 and \$90/barrel. Iran's OPEC Governor Muhammad Ali Khatibi said producer nations need to bring supply

Market Watch

The National Oceanic and Atmospheric Administration said above normal temperatures are forecast in November from Texas to the Great Lakes region. The other regions, including the Northeast US, have equal chances of below-, above- or normal temperatures. In its November 2008-January 2009 forecast, it said above normal temperatures are expected from the Rocky Mountains region to the Appalachian Mountains region. All other areas have equal odds of below-, above- or normal temperatures.

Credit Suisse cut its fourth quarter and 2009 WTI oil price forecast in light of declining demand. It cut its fourth quarter and 2009 estimate to \$75/barrel from its previous estimate of \$110/barrel.

Berstein Research cut its forecast for 2009 oil prices to \$70/barrel from \$90/barrel on Thursday as it expects world oil demand to decline this year and next. It also cut its 2010 estimate to \$80/barrel from \$95/barrel. It lowered its oil demand growth estimate by 100,000 bpd in 2008 and by 460,000 bpd in 2009. As a result, spare capacity is forecast to reach 3.3 million bpd and 3.6 million bpd in 2008 and 2009, respectively.

The US Labor Department reported that US consumer prices were flat in September after it fell by 0.1% in August. It is the latest indication that declining energy prices and the economic downturn are easing pressure on inflation. It reported that excluding food and energy, the CPI advanced 0.1% in September. Energy prices fell 1.9% in September, according to the report. Separately, the Labor Department reported that the number of US workers filing new claims for unemployment benefits fell for a second consecutive week. Initial claims for unemployment benefits fell 16,000 on a seasonally adjusted basis to 461,000 in the week ending October 11.

The Philadelphia Federal Reserve Bank said its business activity index for the US Mid-Atlantic region fell to -37.5 in October from 3.8 in September. It is the lowest level since October 1990.

Statistics Canada said Canadian manufacturing sales fell in August by 3.7% on the month. It was the sharpest decline since December and more severe than the 1% decline expected by analysts. Manufacturers reported a 1.1% decline in new orders, the first decline since April and a 2.5% gain in unfilled orders. Inventories continued to increase for the sixth consecutive month, increasing by 0.3%.

DOE Stocks

Crude – up 5.6 million barrels
Distillate – down 500,000 barrels
Gasoline – up 7 million barrels
Refinery runs – up 1.3%, at 82.2%

back in line with demand. He also called on non-OPEC oil producers to join any action OPEC takes at its emergency meeting next week. He mentioned Russia as a key non-OPEC oil producer that could join any OPEC decision as well as Sudan, Mexico and Norway. He said if oil prices continue to fall, investment in expanding upstream production capacity would be impacted. Qatar's Oil Minister

said he believes OPEC will cut its oil production by 1 million bpd or more at its meeting on October 24. Separately, Ecuador's Oil and Mines Minister Derlis Palacios said OPEC should cut its production at its next meeting. He said he expects oil prices to increase above \$80/barrel in late 2008 due to winter demand and measures taken by OPEC to increase the price of crude.

Venezuela's President Hugo Chavez said oil prices will probably continue falling due to the economic turmoil.

According to Oil Movements, OPEC's oil exports, excluding Angola and Ecuador, are expected to fall by 390,000 bpd in the four weeks ending November 1 to 24.32 million bpd. It said the decline was mostly due to weaker demand from Asian refiners. It however said that as refinery capacity builds ahead of winter demand for heating oil, shipments or exports should increase into the peak period to meet demand.

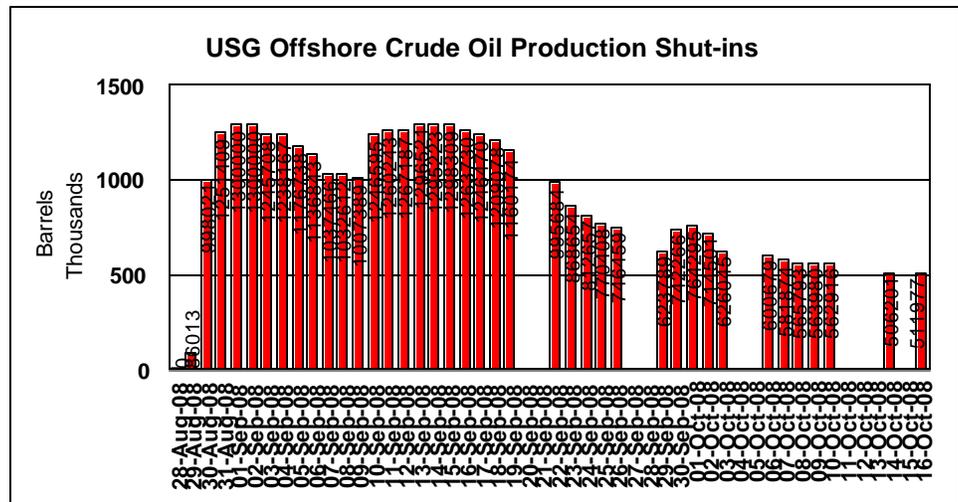
The US Minerals Management Service reported that the amount of shut in oil production in the Gulf of Mexico as of Thursday increased slightly by 5,776 bpd since Tuesday to 511,977 bpd. It indicated that 39.4% of oil production in the Gulf remained shut in following Hurricanes Gustav and Ike. Meanwhile it reported that the amount of natural gas production shut in the Gulf of Mexico fell by 32 mmcf/d, leaving 2.705 bcf of natural gas production still shut in as of Thursday.

Nigeria's Pengassan and Nupeng oil unions are maintaining their threat of strike action over government plans to privatize some downstream units of state oil firm NNPC. The unions have threatened to launch a strike starting October 23 unless the government clarified its plans.

The Nigerian military said it thwarted an attack on navy vessels guarding the country's main crude oil and liquefied natural gas export terminal at Bonny Island. The military recovered dynamite, arms and ammunition. It said no group has yet claimed responsibility for the attack.

During a meeting with European Union foreign policy chief Javier Solana, Iran's Parliament speaker, Ali Larijani, said the new UN Security Council resolution against the country indicates the uselessness of the nuclear talks.

Iran's air force is set to begin military exercises in the country's north near its border with Turkey. Iran's Tehran Times reported that the exercise is aimed at demonstrating the



country's offensive capabilities.

Refinery News

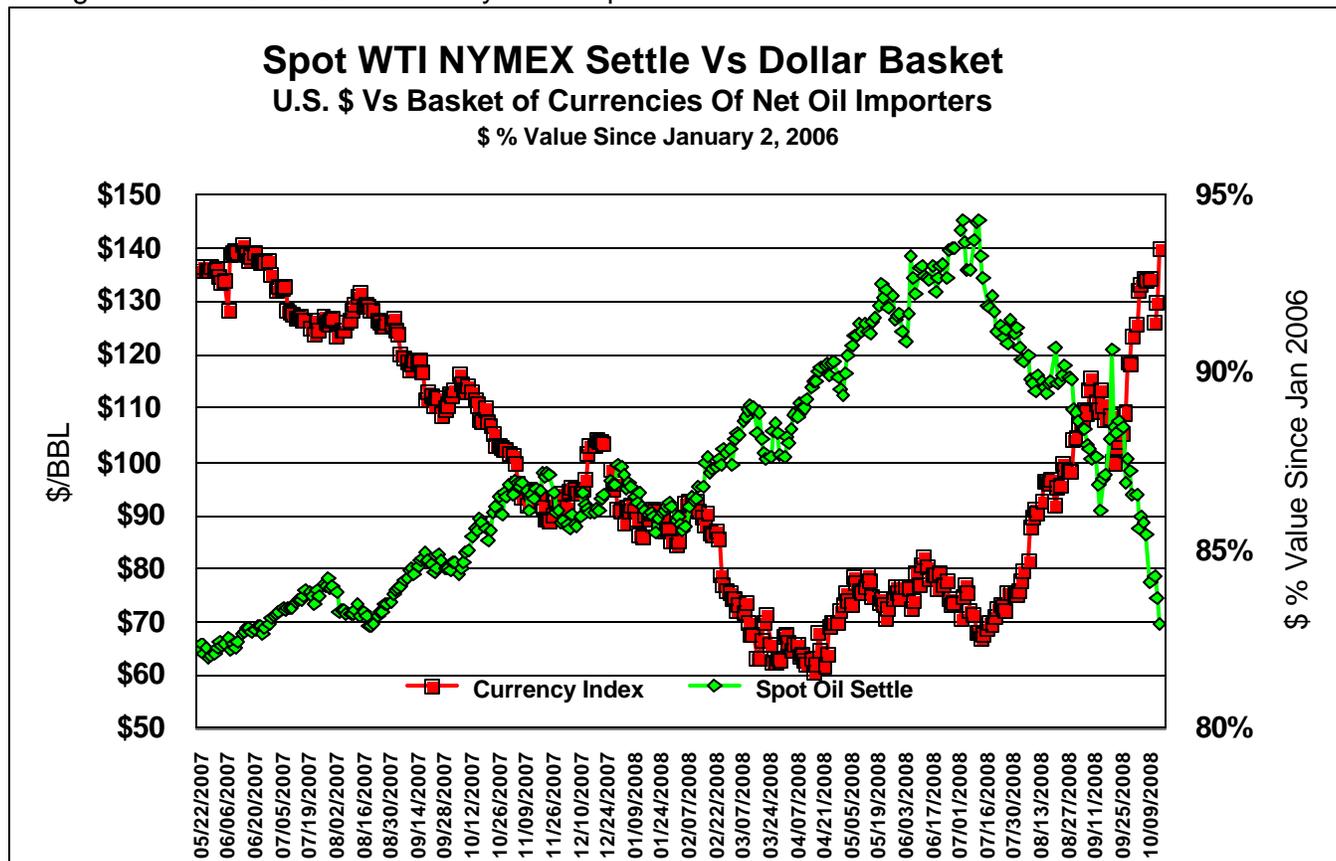
ExxonMobil Corp resumed operations at its 348,000 bpd Beaumont, Texas refinery after it was shut ahead of Hurricane Ike. It said some units were processing crude oil and added that the refinery was blending gasoline and diesel fuel. It has also resumed pipeline deliveries to local markets. However a full restart is not planned immediately.

October Calendar Averages
CL – \$85.14
HO –\$2.4333
RB – \$2.0030

Valero Energy Corp restarted most processing units at its 295,000 bpd refinery in Port Arthur, Texas and were operating at planned rates after the refinery was shut ahead of Hurricane Ike. The last unit to resume operations was the 80,000 bpd fluid catalytic cracking unit, which is approaching planned rates. Separately, Valero said a 28 day planned maintenance on a 30,000 bpd hydrocracking unit at its 100,000 bpd refinery in Three Rivers, Texas was underway. Valero Energy Corp said its 255,000 bpd Aruba refinery was at reduced rates on Thursday due to a power outage on Wednesday that was caused by Hurricane Omar. The refinery is expected to resume full rates within several days.

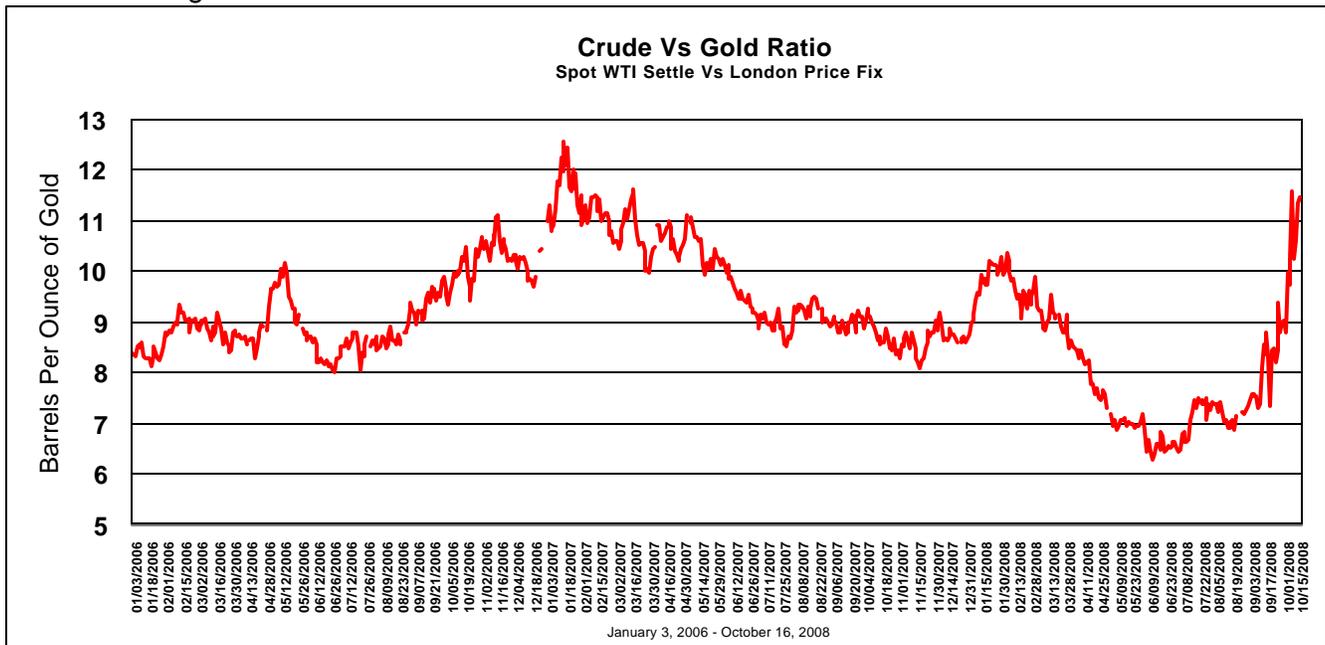
Total shut a sulfur recovery unit at its 232,000 bpd Port Arthur, Texas refinery on Wednesday following a pump failure.

Tanker loadings at Venezuela's 940,000 bpd Amuay-Cardon oil complex restarted on Thursday after strong storm waves caused a two day halt to operations.



Hovensa is restarting its 525,000 bpd St. Croix refinery following Hurricane Omar. The company found no significant damage at the refinery. The restart process is expected to take several days.

Kuwait's Shuaiba, Mina Abdullah and Mina al-Ahmadi, with a combined capacity of 930,000 bpd, were operating at 63% of capacity on Thursday after a power outage shut the refineries on Monday. Kuwait National Petroleum Co said that the Shuaiba refinery reached its full capacity of 200,000 bpd. Its Mina Abdullah refinery has reached almost 90% of capacity. KNPC said that its exports were not affected because storage tanks were full.



Gasoline inventories in independent storage in the Amsterdam-Rotterdam-Antwerp hub in the week ending October 16 increased by 6.23% on the week but fell by 9.63% on the year to 563,000 tons. Gas oil stocks fell by 2.74% on the week but increased by 10.18% on the year to 1.949 million tons while fuel oil stocks fell by 11.5% on the week and by 21.35% on the year to 431,000 tons. Naphtha stocks increased by 18.23% on the week and by 70.18% to 97,000 tons while jet fuel stocks fell by 19.12% on the week but increased by 55.5% on the year to 423,000 tons.

Singapore's International Enterprise reported that the country's residual fuel stocks built by 1.799 million barrels to 19.546 million barrels in the week ending October 15. It also reported that the country's light distillate stocks built by 641,000 barrels to 9.045 million barrels while its middle distillate stocks built by 483,000 barrels to 12.576 million barrels on the week.

The Petroleum Association of Japan reported that Japan's crude oil inventories increased by 4.75 million barrels on the week and by 6.19 million barrels on the year to 113.14 million barrels in the week ending October 11th. It reported that gasoline stocks increased by 450,000 barrels on the week and by 940,000 barrels to 13.12 million barrels while kerosene stocks increased by 150,000 barrels on the week but fell by 3.8 million barrels on the year to 24.06 million barrels. The refinery utilization rate increased by 1.5% on the week but fell by 4.9% on the year to 70.9%.

Japan's Oil Information Center stated that Japan's retail regular gasoline prices fell for the 10th consecutive week to a four month low. The average price for regular gasoline was 161.6 yen or \$1.61/liter or \$6.09/gallon in the week ending October 14 compared with 164.7 yen a week earlier.

South Korea's SK Energy will export 120,000-150,000 tons of gasoline in November amid strong demand from Indonesia and Australia.

Indonesia's Pertamina bought 2.4 million barrels of crude for December arrival, down from 3.6 million barrels purchased for November and 3.35 million barrels for October.

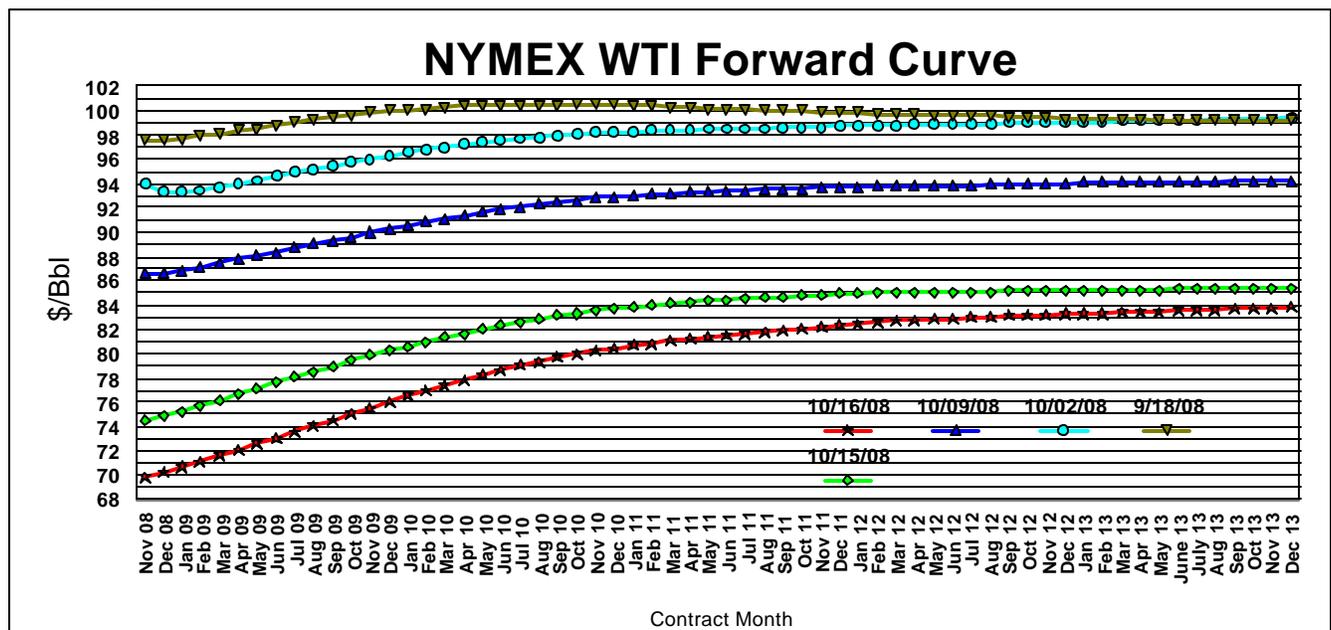
Indonesia's BPMIGAS sold 300,000 barrels of Belanak crude and 400,000 barrels of Duri crude to BP in a combined tender for November loading. It has been left with 900,000 barrels of Belanak and 400,000 barrels of heavy sweet Duri crude unsold.

Production News

Iraq's oil exports from its southern port of Basra remained at a low rate of 1.32 million bpd since Tuesday due to a power generation shortage that has impacted the pumping units of the southern fields.

Woodside Petroleum Ltd reported a 23% increase in its third quarter production to 21.7 million barrels of oil equivalent from 17.6 million boe reported last year. It said it is targeting production of 81-84 million boe in 2008 compared with its previous target of 80-86 million boe. Its year to date production stands at 58.2 million boe.

Angola is expected to export about 1.84 million bpd of crude oil in December, up from 1.74 million bpd in November.



Russia's TNK-BP started operations on a 1 billion barrel oilfield in eastern Siberia on Wednesday. The first commercial oil flowed on Wednesday from the Verkhnechonskoye field, which is part of a plan to open some of the country's most inaccessible crude reserves. The field's first commercial oil came 12 days after Russia's Surgutneftegas began pumping from its nearby Talakanskoye field.

India's Oil Minister Murli Deora said India has no immediate plans to cut fuel prices despite crude oil's fall to a 13-month low near \$72/barrel. He said a cut in prices would not be considered unless the price of crude imported by Indian refiners fell to \$61/barrel.

OPEC's news agency reported that OPEC's basket of crudes fell sharply to \$68.58/barrel on Wednesday, down from Tuesday's level of \$73.49/barrel.

Market Commentary

A larger than expected draw in crude oil stocks pushed the price of crude oil to its lowest level since June of 2007. A host of surveyed analysts were calling for stock levels to build an average of 3.1 million barrels but in fact, inventories increased by 5.6 million barrels. This stock build comes at a time when global demand is being greatly impacted by the global economic situation that has infiltrated the marketplace. The November crude oil reacted to both the stock build and the equities markets, falling to a low of \$68.57. Not until the economic situation is alleviated, do we see crude oil being able to sustain any strength. We would continue to look for the November contract to work towards a previous weekly congestion area of \$68.09-\$60.68. The November/December crude oil spread weakened again today, working its way into the gravitational area of -.47 and -.61. We would stick to the same game plan as yesterday, which was to buy and sell against this range, buying failures to weaken below -.61 and selling failures to strengthen above -.47. We would also look to buy breaks above -.47 and sell breaks below -.61. Despite the pressure in this market, the 321 crack spreads continue to hold at profitable levels. Refiners should continue to run product as long as the profitability margin is there. With refiners compelled to produce product at a time when demand is diminishing, we would look for this spread to weaken, narrowing the profitability for refiners. Should this profitability subside, refiners will be forced to curtail production, leading to a possible floor in both gasoline and heating oil.

Open interest for crude oil, NOV.08 98,074 -8,846, DEC08 315,084 +3,978. Totals: 1,092,009 +1,758.

Open interest
for heating oil;
is NOV.08

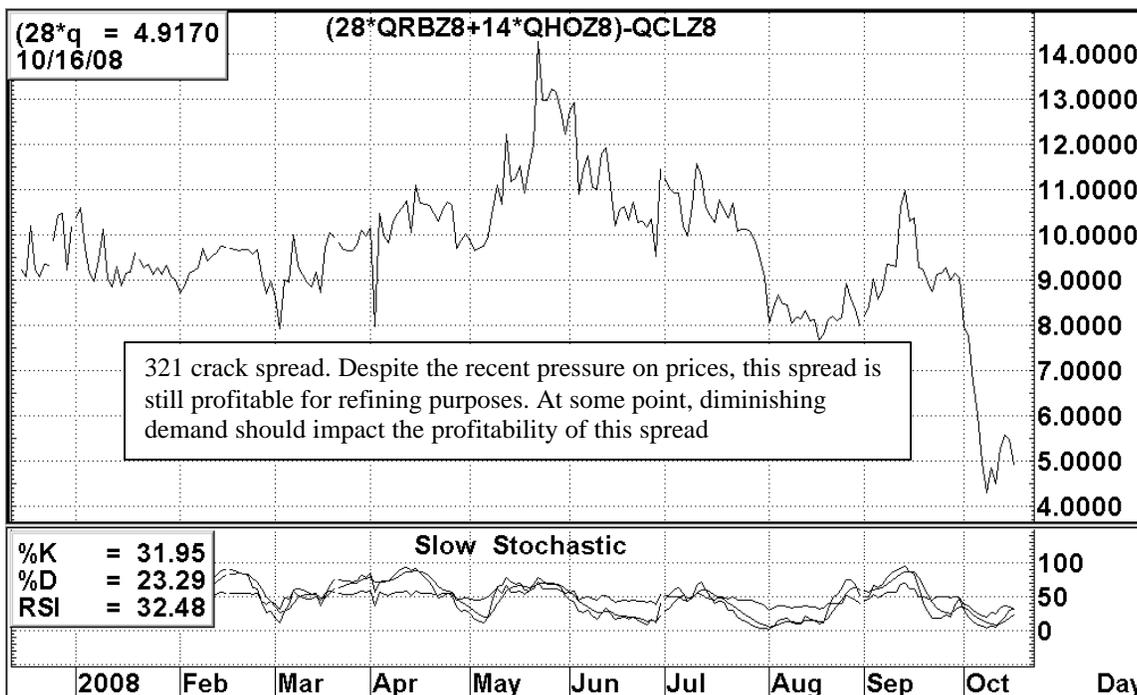
26,776 -
2,615,
DEC.08
47,859
+1,241.
Totals:

211,795 -953.

Open interest
for gasoline is,
NOV.08

31,974 -
2,307,
DEC.08
56,580 +839,
Totals:

161,124 -
1,204



Crude Support	Crude Resistance
68.63, 60.68, 49.90	85.40, 87.10, 98.58, 110.07
Heat support	Heat resistance
, 1.9730	2.4200, 2.5324, 2.6400, 2.6880, 2.7475 3.0184
Gasoline support	Gasoline resistance
1.4700, 1.3351	192.85, 2.0270, 2.0690, 2.1400, 2.1980, 2.2865

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