



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR OCTOBER 27, 2008

OPEC's Secretary General Abdalla Salem el-Badri said a second emergency meeting could be called before the group holds its scheduled meeting in December.

Iran's OPEC Governor Mohammad Ali Khatibi said OPEC will cut production further if the reduction in output agreed in Vienna last week does not stabilize the market.

Qatar's Prime Minister Sheikh Hamad bin Jassim said that current oil

Market Watch

The National Weather Service forecast in its weekly report that US heating demand will be about 2% below normal this week. Demand for heating oil is expected to be about 4% above normal this week. Meanwhile heating demand for natural gas should average 4% below normal while heating demand for electricity should average 4.5% above normal.

Saudi Arabia's central bank governor said the country's crude oil and petrochemical exports will be impacted by the world economic crisis.

A Russian Finance Ministry official said Russia is not planning to cut its exports duties in November despite the sharp fall in oil prices. The official said it would continue with its current regime of changing duties every two months and added that the next cut will not come before December, when oil export duties could fall to between \$304/ton and \$309/ton from the current \$372.20/ton.

The Iraqi parliament's oil and gas committee rejected a new draft of the country's hydrocarbons law. The law could pave the way for international oil companies to develop the country's oil reserves, estimated at 115 billion barrels. The new draft has given the federal oil minister more powers. It also removes regions and provinces' rights to have a say on oil and gas activities. The lawmaker said they would meet with Prime Minister Nouri al-Maliki to complain about the new changes. The parliament is expected to start debating on the oil and gas law in November, however the new changes are expected to delay the debate.

The Federal Reserve Bank of Dallas' Texas monthly manufacturing index fell by 13.7 in October. Its General Business Activity index fell by 59.4.

Morgan Stanley said it can keep its physical assets in the energy sector for up to five years even after converting into a regulated bank holding company last month. The bank could also apply to be "grandfathered" which would allow it to retain the physical commodity businesses permanently.

The Sudanese Foreign Ministry said kidnappers killed five Chinese oil workers out of nine they had held hostage in central Sudan. Two of the hostages were able to escape. The kidnappers, members of the Darfur rebel group the Justice and Equality Movement, were still holding to more workers hostage.

October Calendar Averages

CL – \$78.98

HO – \$2.2972

RB – \$1.8536

prices are low and should be between \$70 and \$90/barrel to satisfy consumers and producers. Meanwhile, Qatar's Oil Minister, Abdullah al-Attiyah said OPEC will wait to see the further effects of the world economic crisis on oil demand before deciding if there is a need for another extraordinary meeting for the group.

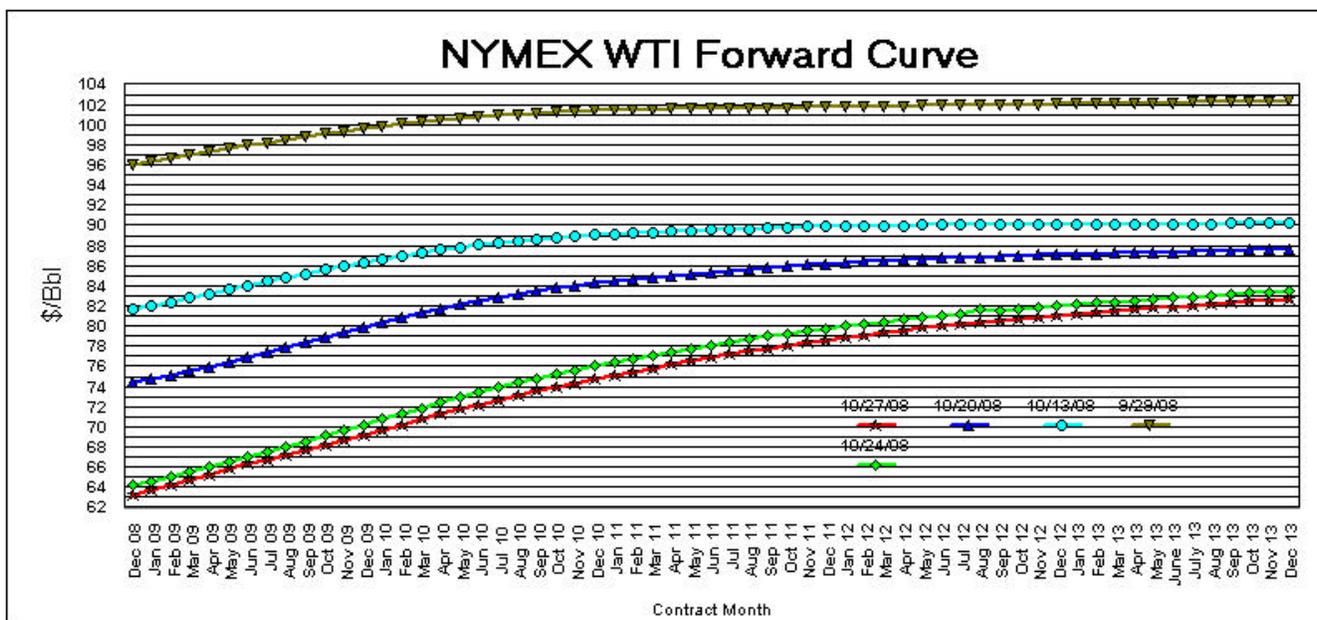
The EIA reported that the US average retail price of diesel fell by 19.4 cents/gallon to \$3.288/gallon in the week ending October 27. It is at its lowest level since the week ending February 11. It reported that the price of diesel, which has fallen by \$1.476/gallon from the record high of \$4.764/gallon, is 13.1 cents or 4.1% above a year ago. The EIA also reported that the US average retail price of gasoline fell by 25.8 cents/gallon or 8.9% to \$2.656/gallon on the week. It is the lowest price since the week ending March 26, 2007. The average gasoline price is 21.6 cents below a year ago.

Refinery News

Colonial Pipeline allocated shipments of distillates for Cycle 62 on its main line north of Collins, Mississippi as demand for space outweighed capacity.

ExxonMobil reported intermittent flaring at its Baytown, Texas refinery but said production impact was minimal. A report filed with the Texas Commission on Environmental Quality said the event involving the delayed coking unit started on Sunday and predicted it would end on Friday.

Flint Hills Resources is shutting its No. 2 East fluid catalytic cracking unit and its No. 2 East sulfur recovery unit at its 300,000 bpd Corpus Christi, Texas refinery for planned maintenance until November 7.



Credit Suisse said US refining margins were mostly lower as the oil markets fell. In markets east of the Rockies, only the Northeast saw margins increase in the week ending October 24 by 38 cents or 3.3% to \$11.78/barrel. Midwestern margins fell by \$1.75 or 5.8% to 28.51/barrel while US Gulf Coast margins fell by 70 cents or 12.9% to \$4.72/barrel. West of the Rockies, margins fell by \$3.80 or 18.1% to \$17.21/barrel.

European oil refining margins fell mostly due to weaker gasoline prices. Complex refiners running Brent crude in the Rotterdam area saw their margins fall to \$8.75/barrel last week from \$10.43/barrel in the week before.

The UK's Environment Agency said it was notified of flaring at Petroplus Holdings AG's 172,000 bpd UK Coryton refinery over the weekend. Petroplus shut the Coryton refinery briefly following the flaring problems.

KBR Inc said it has been awarded two contracts to upgrade the fluid catalytic cracking unit at its joint venture refinery in Cartagena, Colombia. It said work on the project is expected to start immediately. The work is part of an expansion project, which will take the 80,000 bpd refinery to a total capacity of 150,000 bpd.

Japan's Nippon Oil Co is expected to process 4.12 million kiloliters or 25.9 million barrels of oil in November, down 15% on the year.

China imported a record volume of Saudi crude oil of 989,523 bpd or more than 25% of total crude imports in September. A trader said China's higher inflow could last for the rest of the year as a joint venture refinery between the two countries absorbs more Saudi oil. Increased imports from China have partly compensated for lower supply by Saudi Arabia to oil majors and the US.

India's Ministry of Petroleum and Natural Gas reported that Indian refiners processed 3.2 million bpd of crude in September, up 2.8% on the year. India's crude oil production in September fell by 0.4% on the year at 680,200 bpd.

Indonesia's Pertamina will increase the sale of palm based biodiesel in a move to cut energy subsidies. It will expand the sale of biodiesel to industry and to the transportation sector. In September, Indonesia issued a ministerial decree making the use of biofuel mandatory starting in 2009.

Vitol won Azeri state oil firm Socar's tender for 600,000 barrels of Urals crude loading in November at the Russian Black Sea port of Novorossiisk. The shipment will load on November 29-30.

Production News

A source at Iraq's South Oil Co said crude oil exports from Iraq's main Basra terminal fell from 1.6 million bpd to 1.2 million bpd in recent days due to a problem with dehydration units. It was not clear when the problem would be resolved.

OPEC's news agency reported that the price of OPEC's basket of crudes fell to \$57.57/barrel on Friday from \$60.27/barrel on Thursday. It also reported that OPEC's basket price fell by \$6.35/barrel to \$61.53/barrel in the week ending October 24.

Nigerian National Petroleum Corp increased its November official selling prices for its benchmark crude oil grades. The November official selling price for Bonny Light and Qua Iboe crudes were increased by 90 cents to Dated Brent plus \$3.60. Nigeria's Forcados crude price was increased by 85 cents to Dated Brent plus \$3.80 while its Brass Blend crude price was increased by 95 cents to Dated Brent plus \$3.70.

Market Commentary

Global recession fears and the strongest U.S. dollar, versus the euro, in almost 2 ½ years, caused energy prices to tumble during today's trading session. Prices recovered briefly as fears of a third

production cut by OPEC circulated the marketplace. This was not enough to sustain prices, which quickly came off the floor session's close. All eyes remain on the impact that the global economy will



have on demand. Industry sources are indicating that global demand may fall in 2008 for the first time in 15 years. This downward movement in prices appears to be somewhat of the norm for this time of year, dating back to 1998. Eight out of the past ten years, prices for crude oil tend to dip in the beginning of October and then rebound in November. Based on the forward curve the downward movement in prices is accelerating and moving further on down the curve. All of these factors point to additional moves lower, putting the \$49.90 key support level in sight. We would continue to keep a watchful eye on the global stock market and economic situations. The front month spread in crude oil continues to trade in and around the gravitational area of -.47 and -.61. Currently, the December/January spread is trading within this range and appears to be setting up for a test at the bottom of the aforementioned range and possibly beyond. The December 08 heating oil to gasoline spread appears to be getting ready to take a dip. There is support in this spread around 50.50. Should prices dip and hold this would be a buying opportunity. As mentioned previously, we are expecting this spread to gain strength, looking for a test of .6700. Any length, long the heating oil, put on in this spread, should be abandoned if the 50.50 support level is penetrated.

Open interest for crude oil, DEC08 329,524 -3,466, January 09 94,110 -4. Totals: 1,061,969 +8,461. Open interest for heating oil; is NOV.08 15,100 -1,457, DEC.08 55,483 +842. Totals: 217,610 +832. Open interest for gasoline is, NOV.08 22,507 -801, DEC.08 65,278 +271, Totals: 165,935, +822.

Crude Support	Crude Resistance
60.68, 52.73, 49.90	68.63, 72.53, 74.30, 76.10, 85.40, 87.10, 98.58, 110.07
Heat support	Heat resistance
1.9730, 1.7880, 1.7638, 1.6055, 1.4530	2.1844, 2.4500, 2.5732, 2.6400, 2.6880, 2.6965, 2.7475 3.0184
Gasoline support	Gasoline resistance
1.4365, 1.3351	192.85, 2.0270, 2.0690, 2.1400, 2.1980, 2.2865

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