

W The
Windham Group



ENERGY RISK MANAGEMENT

Howard Rennell, Pat Shigueta,
Zachariah Yurch & Karen Palladino
(212) 624-1132 (888) 885-6100

www.e-windham.com

ENERGY MARKET REPORT FOR OCTOBER 29, 2007

Turkey has amassed up to 100,000 troops, backed by tanks, artillery, warplanes and combat helicopters, along the Iraqi border in readiness for a possible large scale incursion into northern Iraq. Witnesses said they saw attack helicopters targeting rebel positions

in Turkey's border province of Sirnak on Monday. One Turkish soldier was killed on Monday during a major army operation in Tunceli province in an explosion triggered by a landmine, a favored weapon of the Kurdistan Workers Party. On Sunday, army sources said 20 PKK rebels had been killed in the Tuncelli campaign. Iraq's Foreign Minister Hoshiyar Zebari warned of disastrous consequences for stability in both countries and the wider region if Turkey invaded. Turkish officials said talks next Monday between Turkey's Prime Minister Tayyip Erdogan and President George W. Bush would be crucial in determining whether Turkey carries out threats of a major cross border offensive against the PKK rebels. Meanwhile, Iraq's Deputy Prime Minister Barham Saleh said the governments' proposals to resolve the crisis with Turkey were still on the table. He warned any unilateral Turkish military action would violate Iraq's sovereignty and threaten stability in both countries.

Market Watch

An Iranian oil official said Iran was aiming for oil export revenues of about \$70 billion in the year to March after it received about \$35 billion the first half of the year. Iran earned about \$60 billion the previous year.

An analyst from Standard Life Investments said supply shortages and market speculators were pushing oil prices towards the \$100 level.

Qatar's Oil Minister, Abdullah bin Hamad al-Attiyah said OPEC would be happy to increase its crude oil production if needed but there was no sign yet of a supply shortage in world oil markets. He said international tensions were behind high oil prices. He said OPEC would not be able to compensate for any halt in Iran's oil exports should there be an escalation in the country's standoff with the West. He also said it would be very difficult to change oil pricing from the dollar to a new basket of currencies. In regards to Qatar's production capacity, the oil minister said its capacity was above 915,000 bpd. He said Qatar was producing 838,000 bpd. He also stated that Qatar is set to meet its target of 77 million tons of liquefied natural gas output in 2010.

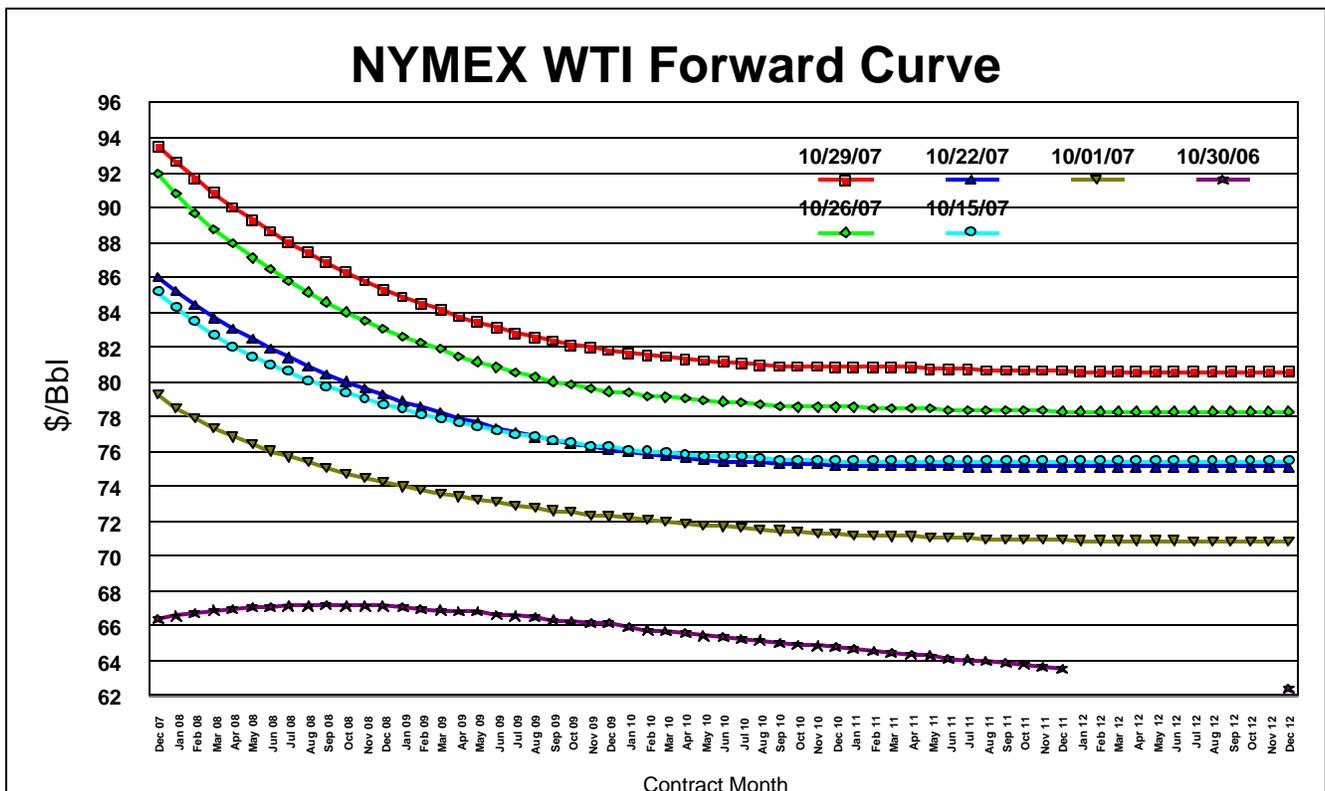
The chairman of Libya's National Oil Corp Shokri Ghanem said oil prices were being driven by speculation and political tensions and there was little OPEC could do. He said OPEC's role is very limited.

A UN IAEA official described cooperation with Iran as “good” ahead of talks on Monday about Iran’s nuclear work, after an Iranian warning that new US sanctions could harm ties. The deputy director of the UN’s IAEA, Olli Heinonen made the comments upon arrival in Iran for a new round of talks with senior Iranian officials. Iranian and IAEA officials started third and final round of talks on Monday aimed at resolving remaining questions on Iran’s P-1 and P-2 centrifuges. The UN IAEA’s Director General, Mohamed ElBaradei called Iran’s refusal to suspend uranium enrichment or halt construction of a nuclear reactor regrettable but said Iran could help resolve the dispute over its nuclear ambitions if it clears up all suspicions about its nuclear activities.

An Iranian commander suggested that the Basij religious militia would be capable of disrupting strategic Gulf oil shipping routes with a small operation if the need arose. The Revolutionary Guards is the ideological wing of Iran’s military which commands the Basij militia. It has previously suggested that it could, if pushed, disrupt oil flows in the Gulf and the Strait of Hormuz.

Analysts said the US government’s new sanctions against Iran are unlikely impact oil and gas production or raise hurdles for international oil companies operating in Iran. The new sanctions may however increase the longer term risk for companies operating in Iran, assuming the Bush administration enforce sanctions against Iran. Last week, the US Treasury and State Department late last week designated Iran’s largest banks and affiliates of the Islamic Revolutionary Guard Corps as supporters of terrorism or weapons of mass destruction. Among the designations are petroleum, construction and engineering companies owned or controlled by the IRGC that are responsible for major oil and gas projects in Iran.

The EIA reported that the US average retail price of gasoline increased by 4.9 cents to \$2.872/gallon in the week ending October 29. It also reported that the US average retail price of diesel increased by 6.3 cents/gallon to \$3.157/gallon.



Refinery News

Credit Suisse said US refining margins fell last week on surging crude oil prices. Margins in the Gulf Coast fell by \$1.16 to \$4.37/barrel while margins in the Northeast fell by 52 cents to \$6.97/barrel. Margins in the Midwest fell by 49 cents/barrel to \$7.39/barrel while margins in the West Coast fell by \$1.26/barrel to \$15.51/barrel. Margin in the Rockies fell by \$1.20 to \$15.33/barrel.

Lyondell Petrochemical Corp said its 283,000 bpd refinery in Houston, Texas would be operating at reduced rates for several days after a fire on Friday in a crude distillation unit.

Shell Oil Co's joint venture 340,000 bpd refinery in Deer Park, Texas shut a catalytic cracker feed hydrotreater on Saturday after a small fire.

Delek said it restarted its fluid catalytic cracking unit at its 55,000 bpd in Tyler, Texas on Saturday. The refinery was restarting the FCC unit after a power interruption.

A power glitch forced a hydrocracker unit shut at Big West's oil refinery in Bakersfield, California on Saturday.

ConocoPhillips Corp said its fluid catalytic cracking unit at its 247,000 bpd refinery in Sweeny, Texas is expected to resume operations following the completion of planned maintenance in the first week of November. The unit was shut on October 3.

Most of the units at PDVSA's 300,000 bpd Cardon refinery have resumed operations following a power outage earlier this month.

Nippon Oil Corp said it would process 4.1 million kiloliters or 25.8 million barrels of crude next month to meet domestic demand, unchanged on the year. Nippon Oil's crude refining volume was estimated at 3.26 million kl in October.

Japan's Kyushu Oil Co Ltd is projected to restart its 26,000 bpd residue fluid catalytic cracking unit at its Oita refinery around early November. The unit has been shut since October 25 for an unplanned inspection due to a problem with the unit's rotating equipment.

Production News

Pemex shut in 600,000 bpd of production as a storm passed through the Gulf of Mexico. The majority of Mexico's crude oil exports were suspended on Monday after the country's three main oil exporting ports of Dos Bocas, Cayo Arcas and Pajaritos were also closed on Sunday. Pemex said crude was only being exported from the smaller ports of Tampico and Salina Cruz.

China's domestic oil production is expected to peak at 190 million tons in 2015, contradicting government forecasts that it could stave off the decline for decades. An energy academic in China said the country would face challenges after its oil production peaks, forcing it to import more oil at more expensive prices and to resort more to dirty coal that could add pressure on environmental protection. An official at the Ministry of Land and Resources said that China aimed to bring production to 200 million tons by the end of the decade and keep it there for about 30 years.

China's Ministry of Commerce reported that the 2008 non-state import quotas for crude oil and refined fuels was set at 19.15 million tons and 10.65 million tons, respectively.

Indonesia's BPMIGAS said the country's crude oil production in October is expected to total 825,300 bpd, down from 827,400 bpd in September.

OPEC's news agency reported that OPEC's basket of crudes increased to \$84.80/barrel on Friday, up from Thursday's \$82.67/barrel.

Market Commentary

As if the market didn't have enough bullish news, Pemex announced that it shut in up to 600,000 barrels per day of crude oil due to bad weather in the Gulf of Mexico. The dollar posting new lows and tensions between Iraq and Turkey heating up, also lead the market higher. The December/January spread took a hit today despite the fact that the market was higher. Although it is too early to be looking at the roll for a reason, it appears that rolls may already be taking place, with length being put on as far back as the March contract. Adding to the pressure on this front spread is refinery runs, which were down 183,000 bpd on the week and 187,000 bpd on the year. At this point in time one must begin to wonder how much psychology plays in the recent strength in the market. Could it be that just because it has been said that crude oil will reach \$100.00, speculators are forcing their hand? While a correction is most certainly due, we will continue to buy and sell at the listed numbers. Total open interest in crude oil is 1,453,736 up 19,067, December 441,512 up 4,344 and January 165,450 up 6,217. Support for December, comes in 91.65, 90.55, 87.55 and 82.45. Resistance is set 95.49. The product markets also remained well supported amid the continued strength in the crude market. The RBOB market posted a low of 226.75 in overnight trading and continued on its upward trend. The market held support at 227.40 and never looked back as it rallied over 5.9 cents to a high of 233.35 ahead of the close. The RBOB market settled up 5.34 cents at 232.74. Meanwhile, the heating oil market continued to make new highs. The market opened at a low of 243.00 in overnight trading and rallied over 3.21 cents to 247.23 after it tested its support level several times early in the session and failed to breach that level. The markets, which are due for a correction, will likely retrace some of its gains during Tuesday's session as traders position themselves ahead of the weekly petroleum stock reports. The RBOB market is seen finding support at 232.00, 230.00, 226.75, 226.62, 223.05 and 215.55.

Meanwhile resistance is seen at 233.35, 234.30, 236.05 and 238.36.

		Explanation
CL	Resistance	95.49
		93.70
	Support	93.00, 92.35, 91.65, 91.52 90.55, 87.55, 84.68, 82.45
HO	Resistance	248.58
		247.23
	Support	246.00, 244.70, 243.00 240.67, 234.65, 229.00, 228.72
RB	Resistance	234.30, 236.05, 238.36
		233.35
	Support	232.00, 230.00, 226.75 226.62, 223.05, 215.55