



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR NOVEMBER 5, 2007

The IEA said Monday that they see global crude oil demand rising to 98 million barrels per day in 2015 from the current level of demand placed at 84 million b/d. Demand will rise to 116 mbd by 2030 as emerging economies fuel further demand increases. The agency sees China and India alone accounting for 43% of the global demand increase.

The Iraqi government on Sunday said it was ready to arrest Kurdish rebel leaders responsible for cross border raids into Turkey in order to avoid a major incursion into Iraq by Turkish military.

The Iranian nuclear negotiator on

Market Watch

Kuwait's oil minister, with just eight days on the job, surprised most government officials as he resigned his post. A political standoff between the legislature and the government has virtually paralyzed decision making in the country for most of this year and has delayed reforms such as a long planned project to boost oil output with foreign participation.

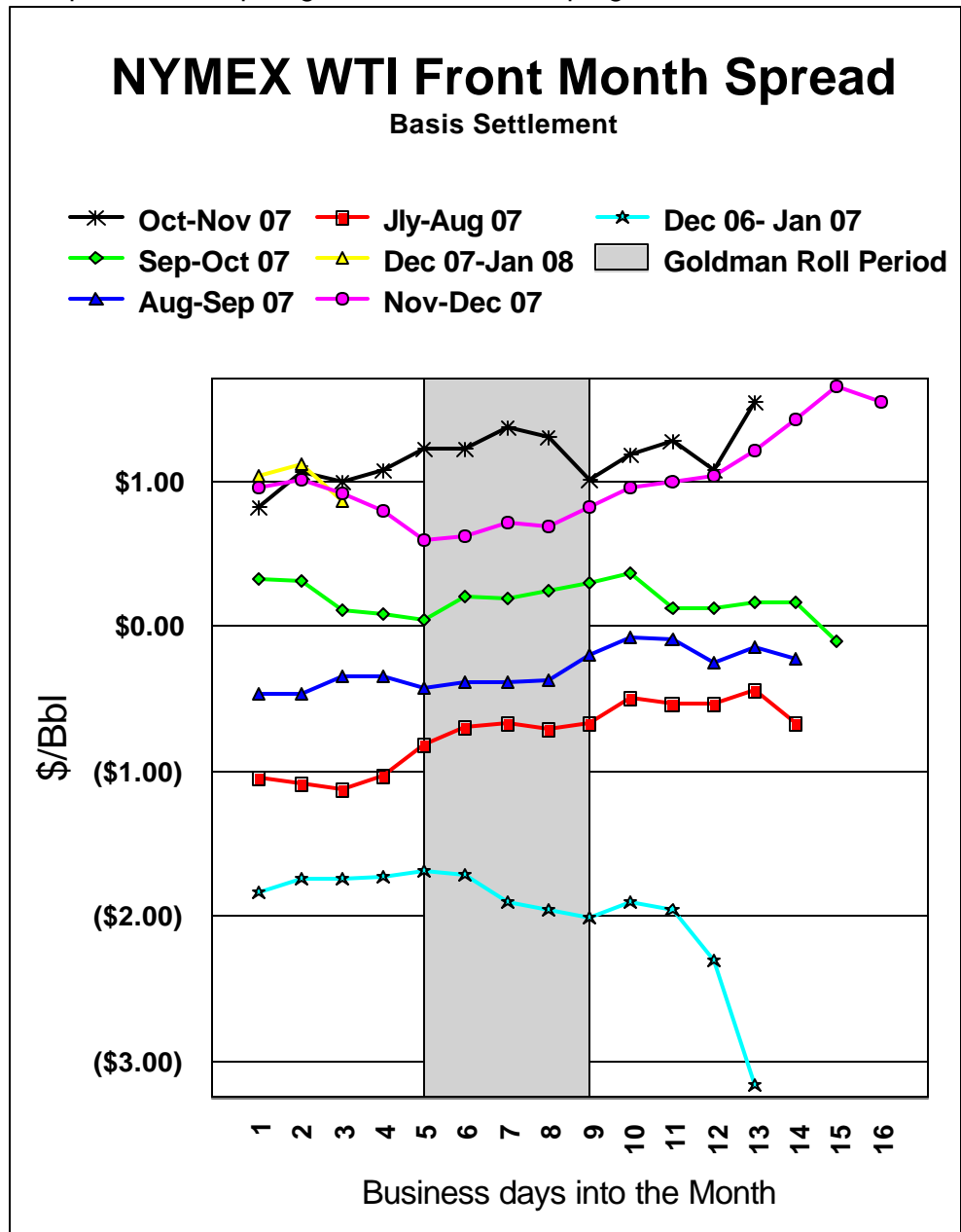
An Iranian delegation at an Iraqi security conference in Turkey over the weekend called on the expulsion of private security firms, like Blackwater, from Iraq along with the integration of militias into the Iraqi security forces. The plan also proposes a two-year suspension of efforts to find solutions to the thorny problem such as oil sharing and the status of provinces and Kirkuk.

Citigroup analysts said today that the re-weighting of the GSCI should help gasoline crack spread values to recover, as Goldman announced last week it would triple the gasoline weighting in its index from 4.6% in 2008 from 1.4% this year.

India's federal government said it would try to keep any increase in petroleum product prices at a minimum to reduce the impact in consumers in that nation. India's state-run oil marketing companies have to sell gasoline, diesel, Kerosene and cooking gas at government mandated rates that are below market prices and are projected to lose INR549.35 billion in revenue in the current fiscal year that ends March 2008. The government was issuing bonds last month that would pick up the tab for nearly a third of this shortfall.

Reuters reported that the Chinese government did not buy any crude oil for its strategic oil reserves over the past two months, although imports through the Ningbo port were up 20% in October from September. The 33 million barrel capacity stockpile at Ningbo had been filled to capacity by March of this year. Port officials while declining to specify the amount of oil in those stocks, did confirm that some of these stocks have been pumped out in recent months.

Saturday while welcoming proposals to work with other countries to enrich uranium, it still would not accept an offer requiring it to halt its nuclear program.



The EU energy commissioner said today that the current high price of oil is unsustainable and here should be better supply to the market.

Cambridge Energy Research Associates said today that crude oil would reach a new inflation adjusted high when it breaches \$99.04 per barrel

Refinery News

Taiwan's CPC said it will skip selling December spot gasoline cargoes due to term commitments and month long maintenance at its residue catalytic cracker from mid-December to mid-January. The company typically sells on average 30,000-60,000 metric tons of spot gasoline each month.

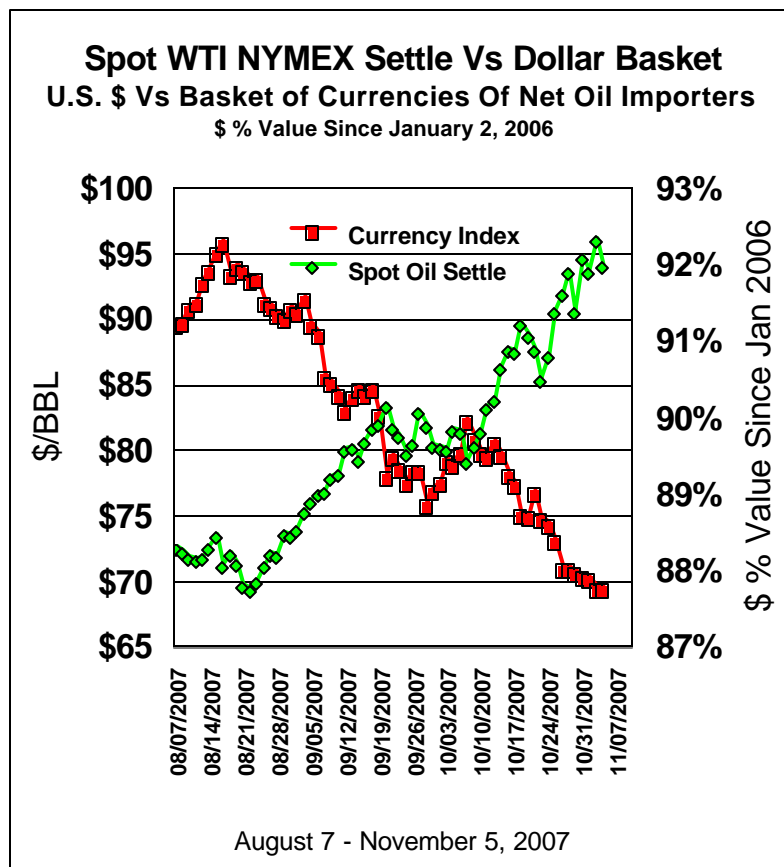
Operator's at Venezuela's 200,000 b/d Puerto La Cruz refinery took its Distillation #1

unit offline for planned maintenance, which is expected to last 20-30 days.

The Lundberg Survey reported over the weekend that the national average price of gasoline at the retail pump increased by 16.3 cents per gallon. Meanwhile the AAA said on Monday said its price survey found that the average retail price of gasoline had moved back above \$3.00 for the first time since July 20th.

Valero Energy reported that a unit shutdown at its 135,000 b/d Wilmington, California refinery over the weekend. The company said that operations at its Aruba refinery in the Caribbean were running normal, as all major units at the 285,000 b/d had recovered from operating levels that were reduced by an early October power outage.

ConocoPhillips reported that its FCC #3 unit at its Sweeny, Texas refinery was starting up as planned this morning. The unit had been off line for planned maintenance since October 3rd.



China National Petroleum said today that it plans to boost refinery throughput in the fourth quarter by 2.13 million tones from a year earlier to help increase domestic fuel supplies. In the meantime it said it will continue to import diesel fuel to help make up for the shortfall.

Citgo reportedly was cutting operating rates at its Lake Charles refinery due to poor refining margins. A crude distillation unit at the refinery was already down for maintenance work but Reuters was reporting that rates at other units was being cut as well.

Striking French fishermen were blocking today Total's 231,000 b/d Donges refinery to protest high oil prices, but the refiner reported no impact on refinery operations had been recorded. If the blockade lasts though there could be an impact. Strikers were also block truck entrances to three oil depots as well.

Production News

The Algerian oil minister said again today that the world oil market is well supplied and any decision by OPEC to increase crude production levels at its meeting next week would not stop prices from climbing. He expected prices in the 2Q2008 would drop slightly but would remain at high levels. Meanwhile the Venezuelan oil minister said that OPEC members have no plans to make any output decisions during an upcoming meeting in Saudi Arabia of heads of state. This meeting is meant to discuss structural OPEC issues and not to discuss output matters. He did say that OPEC continues to look at the possibility of creating a currency basket to value its crude in the future.

Yemeni officials reported that a "mysterious" oil pipeline explosion occurred in its central province of Marib. The cause of the explosion was not known but terrorists have been active in sabotage operations against oil pipelines and power stations in recent months. The pipeline has a capacity of 155,000 b/d.

Dow Jones reported that its survey showed that OPEC production increased in October by 382,000 b/d over September to 31.23 mbd from all 12 of the group's members. Production from the group's core 10 members saw production up 327,000 b/d to 27.28 million barrels. The OPEC-10 group produced 22,000 b/d above the group's new production quota of 27.25 effective November 1st. This production level though is still above 415,000 b/d less than the same time a year ago.

Dockworkers at the Russian Black Sea port of Tuapse went on strike Sunday, but oil exports continued to flow and are expected to remain undisrupted despite the impact on dry good exports.

Indonesia's central bank governor said today that Indonesia faces a risk of imported inflation from high oil prices, although capital flows and an appreciation of the rupiah could help to cushion the impact. The central bank is looking for annual consumer inflation to be within a 5-7% range by the end of the year.

An Iraqi oil official said today that it will supply some 300,000 b/d of Kirkuk crude oil from its northern oil fields via three month contracts. As Iraq has exported some 20 million barrels via Turkey over the last two months via competitive tenders, the country is looking to move to term contracts and could extend these through the first half of 2008. Prior to the war in 2003, Iraq was selling some 700,000 b/d of Kirkuk crude via Turkey. As a result of the return of these northern oil shipments, Iraq's oil exports have risen to its highest level in more than three years.

Venezuela's oil minister said today that his nation was investing upwards of \$10 billion in its oil production programs this year up 67% from 2006. As a result the government expects that production levels in 2008 could rise to 3.6 mbd from its current 3.2 mbd. Most independent analysts though place current oil production though at littl3 more than 2.5 mbd.

Saudi Arabia reported that it has cut its December official selling price for Arab Light to Asian customers by \$1.00 and by \$4.25. to customers in the United States. European customers though will see an increase of 60 cents per barrel.

Market Commentary

The oil markets opened lower this morning driven downward by concerns over the health of the U.S economy as Citibank announced it had written off another \$11 billion in sub prime mortgage losses. In addition the tensions surrounding Iraq/Turkish border problem and the Iranian nuclear program also seemed to have been ratcheted a bit lower and thus prices began the day down. While a late morning rally took prices back up to the highs of the previous two trading sessions the inability to break through this level appeared to prompt long liquidation and sent prices tumbling back to the levels at which they started this morning. Final volume on the day was excellent with over 458,000 lots booked in the crude oil, with gasoline seeing 62,291 lots traded and heating oil 57,518 contracts done on the day.

We feel that while this market appears to have wide spread shared view that \$100 barrier will be breached shortly, possibly before the week is out. But given our "contrarian" view, especially when everyone appears to have the same price target, we would look for any signal that the bullish argument could be running out of steam a bit, as judged by the inability of this market to breach the prior two day top at the \$96.03-\$96.24. But if the dollar continues to erode rapidly it will most likely keep the bulls in control of the oil market. But we remain prepared to look to begin to be a buyer of put spreads on any move in the underlying futures market above \$98.00. If one feels the need to be bullish we would look for products to hold value over crude oil, as U.S. refinery operations continue to limp along and that global products markets will stay relatively strong given European demand for distillate and Chinese demand for both gasoline and distillate.