



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR NOVEMBER 13, 2008

The IEA cut its world oil demand growth forecast in response to increasing evidence that the world economy is weaker than previously thought. World oil demand in 2008 is expected to increase at the lowest rate since 1985. The IEA cut its 2008 oil demand growth estimate by 320,000 bpd to 120,000 bpd. It also cut its oil demand growth estimate for 2009 by 340,000 bpd to 350,000 bpd. World oil demand is estimated to average 86.2 million bpd in 2008 while in 2009 it is forecast to expand to 86.5 million bpd. The IEA lowered its estimate for demand for OPEC oil. The call on OPEC crude averages 31.1

Market Watch

Royal Dutch Shell CEO Jeroen van der Veer said investing in oil projects could still be attractive with a price of \$50/barrel if taxes and royalties on oil production are not too high. Executives and officials have previously stated that oil prices of about \$80/barrel were needed to justify investment in new projects.

Citigroup cut its 2009 crude oil forecast to \$65/barrel from its previous forecast of \$90/barrel.

Mexico's Finance Minister Agustin Carstens said Mexico hedged 330 million barrels of its oil exports for 2009 at \$70/barrel. Mexico's government budgeted the Mexican blend of oil at \$70/barrel for next year compared to its current price of less than \$45/barrel. Mexican officials had already planned to run a deficit in 2009 in order to stimulate the economy.

The EIA said it is considering publishing more expansive forecasts that quantify the range of possible outlooks for energy prices in response to complaints that its forecasts have proved wrong.

The US Treasury Department said the US started its fiscal year with a record \$237.18 billion budget deficit in October. It said October's outlays of \$402.02 billion included \$115 billion in purchases of equity in major banks and \$21.5 billion in purchases for mortgage backed securities from Fannie Mae and Freddie Mac. The deficit was more than double the expected deficit of \$101.5 billion. October's 71% spending increase from the \$235.01 billion in October 2007 outlays was accompanied by a drop in revenues due to a slowing economy.

The US Labor Department reported that initial claims for jobless benefits increased by 32,000 to a seasonally adjusted 516,000 in the week ending November 8. It is at the highest level since September 29, 2001. A four week moving average of claims was 491,000, the largest since March 1991. Continuing claims reached 3.897 million in the week ending November 1, up from 3.897 million from the prior week.

The EU included a provision to publish weekly data on commercial oil stocks in a draft law that also seeks to improve the EU's ability to cope with any oil supply disruption. The weekly publication of commercial inventories may start within three years, depending on how long it takes EU governments to approve the law and the procedural details the commission plans to draw up afterward. The proposal follows four years of discussions in the EU about increasing market transparency. If the law is approved next year, publication of the information could be before the end of 2009. The draft legislation also aims to strengthen EU policy over emergency oil stocks, which can be held by governments or industry. EU law currently requires countries to hold at least 90 days of reserves.

million bpd in the fourth quarter of 2008, much lower than its production in October of 32.1 million bpd. The IEA also reported that stocks in OECD countries at the end of September equaled 55 days of forward demand, 2.2 days above the 2003-2007 average.

DOE Stocks

Crude – unchanged

Distillate – up 600,000 barrels

Gasoline – up 1.2 million barrels

Refinery runs – down 0.7%, at 84.6%

OPEC is seen debating the possibility of cutting its production further in the coming weeks ahead of a meeting on November 29 initially restricted to Arab members of OPEC that is now set to be extended to other countries. OPEC members are divided on how much oil production should be cut, with some members calling for a cut of

500,000 bpd and others calling for a further 1.5 million bpd cut. An OPEC source said OPEC may decide to cut its production by an extra 1 million bpd by the end of the year. The source confirmed that Angola and other non-Arab countries will attend the OPEC meeting. Earlier, Ecuador's Oil Minister Derlis Palacios said Ecuador has been invited to an extraordinary OPEC meeting on November 28. He said the country would support a decision to cut OPEC's production further.

Qatar's Oil Minister said there is a large decline in oil demand and added that non-OPEC producers should cooperate to bring supply and demand into balance.

According to Oil Movements, OPEC seaborne exports, excluding Angola and Ecuador, fell by 60,000 bpd to 24.17 million bpd in the four weeks ending November 29. It said it was likely that shipments were curtailed by OPEC's output cuts.

Refinery News

ConocoPhillips shutdown a sulfur train at its 146,000 bpd Borger, Texas refinery to repair a control valve, reducing rates for about one day to the sulfur recovery unit starting on Thursday.

Norway's StatoilHydro said it plans to restart its catalytic cracking unit at its Mongstad refinery following a scheduled maintenance shutdown.

According to Germany's MWV, demand for heating oil increased by 57.4% on the year to 2.81 million tons in October as consumers took advantage of a fall in prices. The increase in heating oil sales helped lift overall German oil product sales in October by 15.3% on the year to 7.88 million tons. It reported that total gasoline sales fell by 4.9% on the year to 1.8 million tons. Germany's diesel fuel sales increased by 1.9% on the year to 2.73 million tons while its fuel oil sales increased by 13.9% on the year to 540,000 tons.

Oil product inventories in independent storage in the Amsterdam-Rotterdam-Antwerp terminal fell in the week ending November 13 due to congestion at loading and discharge ports and some transatlantic exports. Gasoline stocks in the ARA area fell by 8.57% on the week and by 12.89% on the year to 608,000 tons in light of exports going to Mexico, the US, West Africa and the UAE. It reported that gas oil stocks fell by 0.93% on the week to 1.591 million barrels amid increased demand from German consumers. However gas oil stocks increased by 6.28% on the year. Fuel oil stocks fell by 12.48% on the week and by 13.12% on the year to 470,000 tons while naphtha stocks fell by 13.27% on the week but increased by 42.03% on the year to 98,000 tons and jet fuel stocks fell by 23.79% on the week but increased by 108.4% on the year to 471,000 tons.

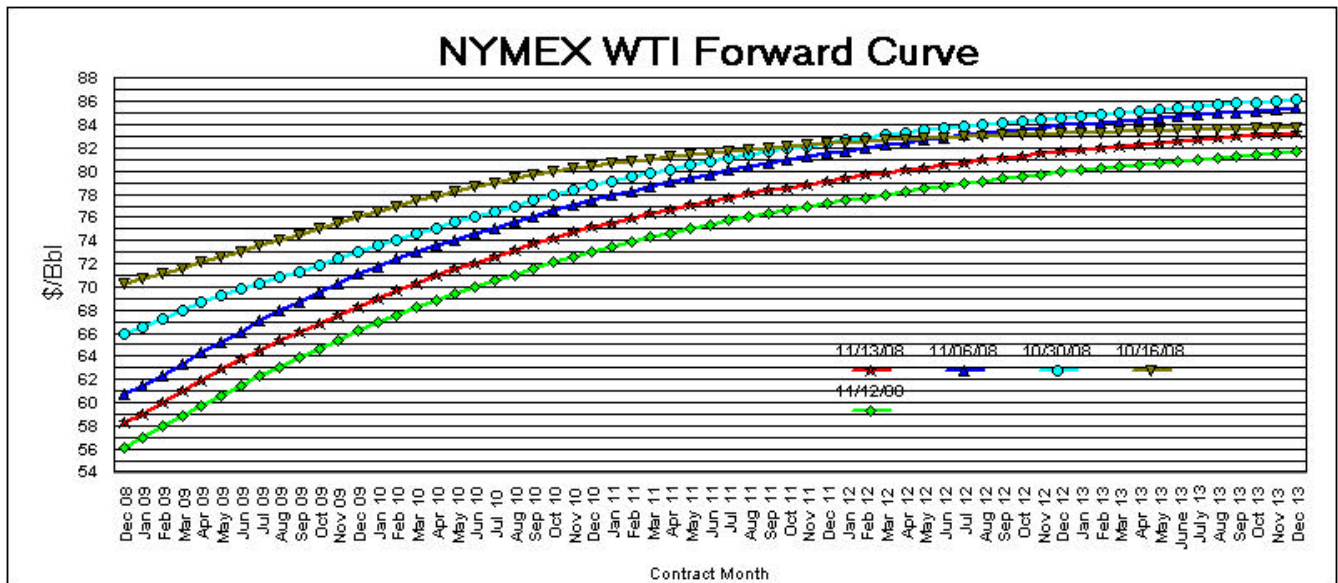
Singapore's International Enterprise reported that the country's residual fuel stocks built by 480,000 barrels to 20.758 million barrels in the week ending November 12. It also reported that Singapore's

November Calendar Averages

CL – \$61.97

HO – \$1.9739

RB – \$ 1.3588



light distillate stocks built by 160,000 barrels to 9.728 million barrels while middle distillate stocks fell by 515,000 barrels to 11.327 million barrels on the week.

Production News

According to a shipbroker, Royal Dutch Shell hired a supertanker with an option to use it to store North Sea crude. It booked the tanker to load a 2 million barrel cargo on November 23 bound for Rotterdam. Shell has as much as 4.2 million barrels of Forties crude to load between November 23 and December 7.

Royal Dutch Shell said it managed to contain an oil spill from the Adibawa delivery pipeline in the Okordia-Zarama community in Bayelsa state after it was sabotaged. It is not clear who was behind the attack on the Nigerian pipeline that was sabotaged.

Baker Hughes reported that Saudi Aramco is expected to cut the number of rigs drilling for oil and gas in the coming months. However it added that spending by other national oil companies in the Middle East is expected to remain strong.

Norway's Petroleum Directorate reported that the country's oil production increased to 2.21 million bpd in October from 2 million bpd in September. It also reported that natural gas liquids and condensate production increased to 321,000 bpd in October from 219,000 bpd in September.

Russia's government has ordered oil firms to resume full exports for November despite losses on shipments due to high export duties and falling oil prices.

China's National Bureau of Statistics reported that the country's crude oil production in October increased by 3.9% on the year to 16.350 million tons while its oil production in January to October increased by 2.2% on the year to 158.247 million tons. It also reported that China's diesel production in October increased by 13.9% to 11.777 million tons while its gasoline production increased by 6.7% to 5.417 million tons and fuel oil production fell by 17.8% to 1.63 million tons.

Kazakhstan's State Statistics Agency reported that the country's crude oil and gas condensate output totaled 58.4 million tons in January-October 2008, up 4.7% on the year. It reported that crude oil production increased by 11.7% on the year and by 8.3% on the month to 5.37 million tons.

A BP-led consortium will resume production in late December at an Azeri offshore platform that remains shut following a gas leak in September. In September, BP halted oil production at its Western and Central Azeri platforms. It restarted operations at its Western Azeri platform in October.

Iraq's Finance Minister Baqer Jabr Solagh said Iraq aims to triple its oil exports to 6 million bpd in 10 years. He said Iraq is allocating \$2 billion in order to start increasing its capacity. Iraq's current production totals 2.4 million bpd, of which 2 million bpd is exported.

Ecuador's Mining and Oil Ministry reported that the country's average oil output was 504,739 bpd in the first 10 months of 2008, down 1% from 508,684 bpd last year. Petroecuador's output averaged 263,644 bpd in the first 10 months while private companies' output averaged 241,095 bpd.

The National Iranian Oil Co raised the price of its Iran Light crude bound for Northwest Europe by 10 cents to BWAVE minus \$4.70. It also raised the price of its Iran Light crude bound for the Mediterranean by 45 cents to BWAVE minus \$5.45. Meanwhile its Iran Heavy and Forozan Blend crude prices were mixed as they were cut to Northwest Europe by 10 cents and raised by 5 cents to the Mediterranean.

Austria's OMV AG has reduced its 2010 target for production growth within the existing exploration and production portfolio due to the tighter credit environment and recent fall in oil prices. It plans to reach a production level of 250,000 to 260,000 bpd of oil equivalent, down from its previous target of 400,000 bpd.

OPEC's news agency reported that OPEC's basket of crudes fell to \$49.94/barrel on Wednesday from \$52.24/barrel on Tuesday.

Market Commentary

Energy prices responded negatively today to the release of the DOE/API numbers. Crude oil stock levels were unchanged on the week, with gasoline increasing 2 million barrels and distillates increasing by 600,000 barrels. Crude oil imports on the week were down 469,000 barrels on the week but are 266,000 above the same 4-week period last year. Demand for gasoline averaged 9.1 million barrels per day or down 1.9% on the year. Distillate demand came in at 4.0 million barrels per day or 4.6% lower than the same period last year. Total fuel demand averaged 19.1 million barrels per day, down 6.6% during the same period last year. In the meantime, the IEA has lowered its 2009 forecast for demand by 670,000 barrels or 0.8% to 86.5 million barrels per day. This is the largest decrease in 12 years. These somewhat bearish numbers come at a time when U.S. unemployment hit a 25-year high, with 3.1 million Americans reportedly out of work. The global economy will continue to overshadow the true fundamentals of the market and that scenario is looking more and more bearish. The December crude oil contract traded below \$55.00 today, a key option target point for puts. Although automatic exercise occurs on expiration for the American contract, one has the option to exercise at any point. Coming into today's session the \$55.00 puts had 24,028 contracts in open interest, with the \$50.00 put holding 23,166 contracts. As mentioned previously, we were looking for the market to attempt to reach these two levels. According to a Bloomberg report, the February \$30 put was the second most actively traded option today, behind the December \$55 put. Buyers of the \$30 put have the right but not the obligation to go short the February 09 futures contract at \$30.00 per barrel. This put was trading at .45 cents or \$450 per barrel. Despite the early sell-off in outright futures, the December/January crude oil spread remained strong in comparison to market movement. Again, this may be a functionality of storage, which is ample at this time. Although the forward curve has moved higher on the scale the shape of the curve has not changed. Indications are that this market is still in a bear trend. Both gasoline and heating oil followed the crude oil higher but at a slower

pace. Gas crack and heat crack spreads came under pressure, as the crude oil proved stronger than both products. We would attribute this minor decrease to slackening demand. With the economic outlook looking ever grim, these crack spreads should continue to lose value. The January 3.2.1 crack spread has failed to take out a previous high set at \$4.9716, and has turned to the downside. For now we would expect that this spread should test the \$3.9578 level, its 50% retracement between the range of \$4.9716 and \$2.9440. Should this level hold, a buy opportunity would present itself, should this level become penetrated a selling opportunity would arise. Based upon a monthly spot continuation chart for heating oil, there appears to be more room to the downside. December heating should work lower looking for a test of the \$1.7640 support area.

Crude Oil (CL) DEC.08 199,288 -15,410 JAN.09 224,690 +23472 FEB.09 51,210 +1,690 Totals: 1,167,123 +12,383 N.Y. Heating Oil (HO) DEC.08 39,826 -956 JAN.09 50,371 +4,022 FEB.09 19,961 +220 Totals: 226,307 +6,164 NEW YORK HARBOR RBOB GASOLINE (RB) DEC.08 46,624 -2,608 JAN.09 52,875 +3,612 FEB.09 10,082 +264 Totals: 169,200 +3,925

Crude Support	Crude Resistance
53.57, 52.73, 49.90	65.56, 67.00, 72.53, 74.30, 75.91, 79.35 85.50, 90.51
Heat Support`	Heat resistance
1.7880, 1.7638, 1.6055, 1.4530	2.2796, 2.3720, 2.3806, 2.4500, 2.5732, 2.6400, 2.6880, 2.6965, 2.7475 3.0184
Gasoline support	Gasoline resistance
10350, .7760, .6840	1.8240, 192.85, 2.0270, 2.0690, 2.1400, 2.1980, 2.2865

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