



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR NOVEMBER 14, 2008

An OPEC delegate said OPEC probably needs to cut its oil production by a further 1.5 million bpd at its emergency meeting scheduled for November 29. Meanwhile, Iran's OPEC Governor Mohammad Ali Khatibi said Iran would support any decision by OPEC to cut its production further. He said OPEC member are likely to lower their production ceiling if the current market trend for crude continues. Libya's top oil official, Shokri Ghanem said the current price of oil is too low and added that the declining trend was a concern. However he stopped short of calling for a further cut in OPEC oil output at its emergency

Market Watch

BNP Paribas lowered its oil price forecast for 2009 by 21% to \$75/barrel and added that weakness in demand will have the upper hand in determining prices for the next few quarters. It also cut its oil price forecast for the fourth quarter this year by \$12.70 to \$65/barrel. Its 2010 WTI forecast was cut to \$89/barrel. It cut its Brent crude oil forecasts to \$62/barrel for this quarter, to \$73/barrel next year and to \$87/barrel in 2010.

Eurostat said the euro zone is in its first ever technical recession after the economy contracted for the second consecutive quarter. The euro zone's GDP fell by 0.2% in the third quarter following its 0.2% decline in the second quarter. It also said inflation in the euro zone was zero on a monthly basis in October.

Saudi Arabia's Foreign Minister Prince Saud al-Faisal said that the country will play a positive role at this weekend's G20 summit.

A Russian Finance Ministry official said the country could cut the oil export duty by over 30% starting in December in response to calls from oil producers impacted by the fall in oil prices. The duty will likely be set at \$192/ton, down from the current duty of \$287/ton. The government on Thursday ordered oil firms to resume full exports in November after oil companies cut their exports by 25% due to their losses. Separately, traders said at least four cargoes of Russian Urals appeared to return to the Baltic Sea port of Primorsk following the government order.

China's cabinet issued revised value added tax rules late Friday in a move to halt the slowdown in growth and possibly draw 100 billion yuan or \$14.7 billion in additional corporate investments next year. China will switch to consumption-based tax starting January 1 from the current production-based tax regime. The reforms will allow companies to write off core investment expenses from their tax bills, saving them at least 120 billion yuan next year. However it said consumption tax on fuel oil and diesel would remain at the current rate of 0.10 yuan/liter.

China's industrial output has declined to a seven year low as the world economic slowdown continues to impact the country amid falling demand for Chinese exports. China's National Bureau of Statistics reported that growth in factory output fell to 8.2% in October from September's 11.4%. It is down a growth of 17.9% reported last year.

Venezuela's central bank stated that the country's GDP in the third quarter expanded 4.6% on the year. It is well below the 7.1% expansion posted for the second quarter. Its economy expanded at its slowest pace in five years.

November Calendar Averages

CL – \$61.47
HO – \$1.9597
RB – \$ 1.3469

meeting. He said OPEC needs to focus on its compliance with previously agreed supply reductions. Separately, a source familiar with OPEC policy said OPEC statisticians are concerned over the build in OECD oil inventories and added that group will target further production cuts to reduce that oversupply.

The DOE reported that the oil price decline may cut OPEC's oil export revenues to \$595 billion next year from a record \$979 billion this year.

The head of the IEA, Nobuo Tanaka said low crude oil prices could delay investment in oil projects worldwide, prompting concerns about supply growth when the world economy recovers from the current slowdown.

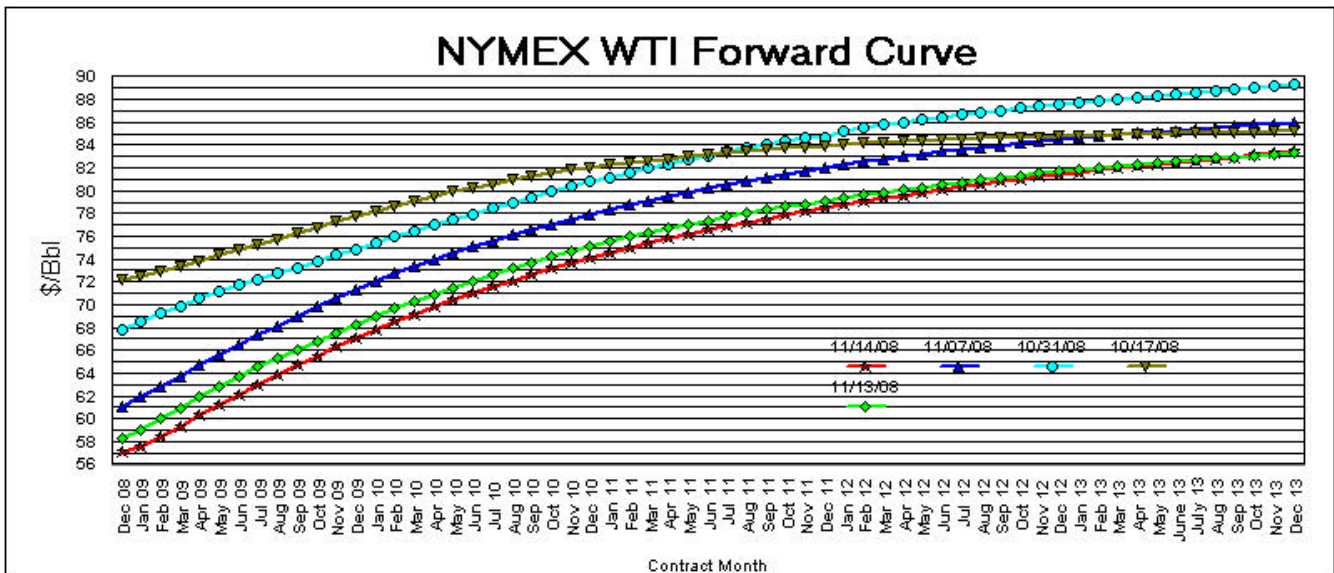
Refinery News

Colonial Pipeline allocated cycle 66 for its main distillate fuels pipeline north of Collins, Mississippi as demand for shipping space exceeds capacity.

Valero Energy Corp reported that a flare compressor associated with a crude unit tripped at its 190,200 bpd Delaware City refinery on Thursday.

South Africa's 135,000 bpd Engen refinery will be shut for three to four months after a fire destroyed the main processing unit. The cause of the fire is still unknown. Engen said it will have to import refined oil and oil products during the shutdown.

Japan's Nippon Oil Corp is scheduled to halt operations at its 110,000 bpd Mizushima crude distillation unit for at least a month from November 14, cutting its refining volumes further in response to lower domestic demand. It is also expected to shutdown a 21,000 bpd gasoline production unit, and 720 ton/day paraxylene production unit, which are connected to the crude distillation unit.

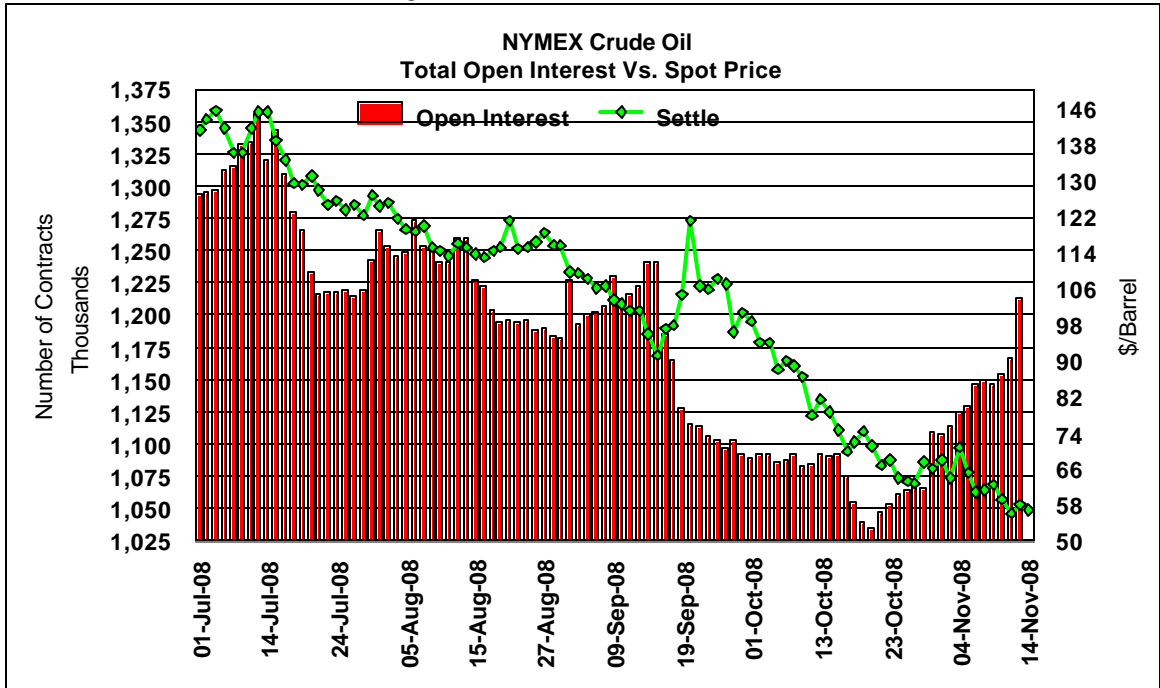


Russia's Rosneft said it expects to start building a new refinery near the Pacific port of Nakhodka in the second half of 2009. Rosneft previously said the refinery would have a capacity of 20 million ton/year or 400,000 bpd. Rosneft plans to export the majority of the Far East refinery's future output to Asian markets.

Indonesia's Pertamina bought 3.3 million barrels of crude for January arrival via its regular tender, up from 2.4 million barrels for December. It bought 2.35 million barrels of Asia-Pacific crude and another 950,000 barrels from Nigeria.

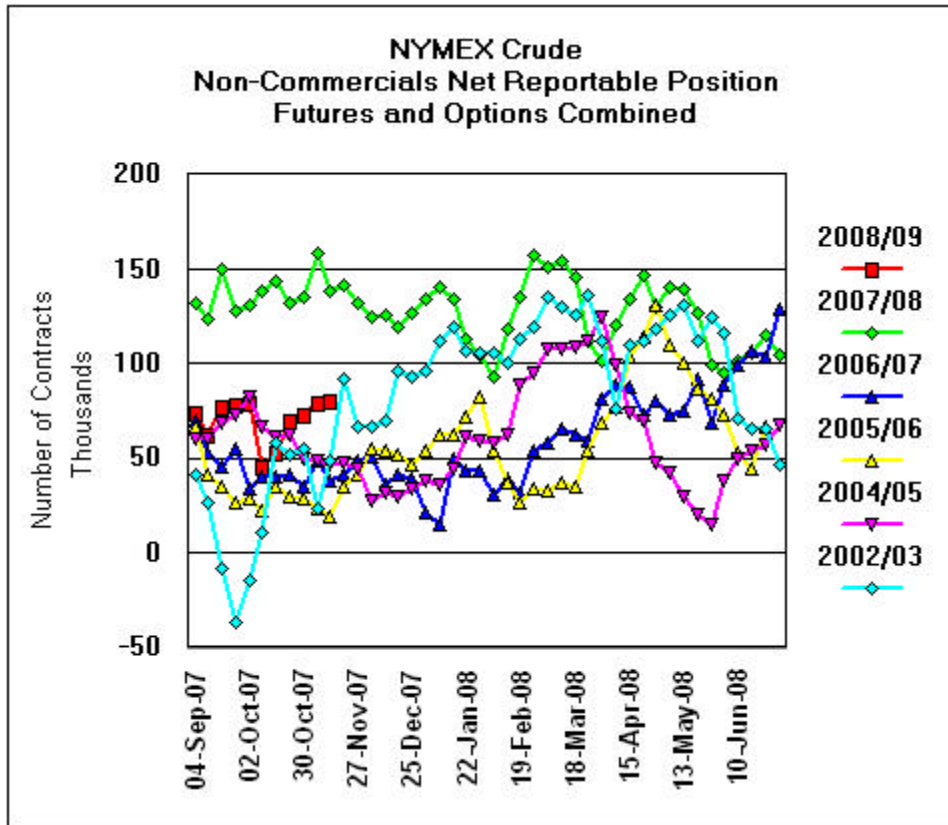
Production News

Norway's StatoilHydro said oil production at the Snorre A platform resumed on Friday following a four day shutdown due to a leak in the gas flaring



system. Production also resumed at the linked Vigdis field.

Mexico's Pemex said crude production from Mexico's Cantarell field will fall by 25% from September's level of 740,000 bpd to 700,000 bpd by the end of 2009. The fast declining field pumped about 1.3 million bpd at the start of the year. A Pemex official said it would still meet its overall output goal of 2.75 million bpd due to increased output at other fields. Its Chicontepec field, which produced about



33,000 bpd in September, is expected to increase its production to 100,000 bpd by the end of 2009. Output at the Ku Maloob Zaap field is steadily increasing towards its anticipated plateau of 800,000 bpd.

Brazil's Energy Minister Edison Lobao said the country's subsalt offshore reserves could contain as much as 150 billion barrels of oil equivalent and enough natural gas to turn the country into an exporter of the product. Brazil's proven reserves in its

ultra-deep subsalt area currently stands at 12 billion barrels of oil equivalent, based on 16 prospective well drillings.

Azerbaijan's Socar and Kazakh KazMunaiGas agreed on Friday on the basic principles of a project that would bring Kazakh oil across the Caspian Sea starting in 2013. Most of the Kazakh crude for the Trans-Caspian project will come from the Kashagan field and will be transported in tankers to world markets. Initially, 500,000 bpd of oil will be shipped across the Caspian Sea. Kazakhstan's Energy Minister Sauat Mynbayev said in Kazakhstan is expected to export about 100 million tons of crude in 2015.

Turkey reached the final stage of talks with Royal Dutch Shell to bid together in a partnership in oil exploration tenders in Iraq.

OPEC's news agency reported that OPEC's basket of crudes fell further to \$47.73/barrel on Thursday from \$49.94/barrel on Wednesday.

Market Commentary

The oil markets remained pressured amid the concerns over demand as the equities market reversed yesterday's late rally. Also in a bearish note, the European Union statistics agency, Eurostat, stated that the euro zone was now in a recession. The crude market retraced its overnight gains after posting a high of \$59.96 and traded to a low of \$55.69. The market traded mostly sideways before finding some strength late in the session, which pushed it back above the \$58.00 level. However the market's gains were once again limited and it settled down \$1.20 at \$57.04. The December/January spread came in during today's session, settling at -.56 amid today's selling, unlike Thursday's session when the spread remained relatively unchanged. While the crude market will continue to be driven by the economic news, the market is also seen continuing its downtrend as traders are still targeting the \$55/level followed by the \$50 level, given the activity seen in those puts. Meanwhile, the product markets also settled in negative territory after retracing Thursday's gains. The heating oil market continued to trade higher in follow through buying seen late Thursday and posted a high of \$1.9212. However the market erased its gains and traded to a low of \$1.8137 in afternoon trading and settled down 4.32 cents at \$1.8318. Similarly, the RBOB market, which posted a high of \$1.328, sold off to a low of a low of \$1.2172, still holding support at its previous low. It settled down 6.33 cents at \$1.2391. The January 321 crack spread continued to weaken and is still seen targeting its 50% retracement level of \$3.9578 as the product market are seen continuing their downward trend. The heating oil market is seen finding support at \$1.8137 followed by \$1.7919, \$1.788 and \$1.7638 while the RBOB market is seen finding support at \$1.2172, \$1.21 and more distant support at \$1.035.

The latest Commitment of Traders report showed that non-commercials in the crude market increased their net short position by 42,441

		Explanation	
CL	Resistance	62.28, 65.56, 67.00	Previous highs
		58.35, 59.96	Friday's high
	Support	55.69	Friday's low
		55.00, 54.67, 49.90, 49.77	Previous lows, basis trendline
HO	Resistance	1.9345, 1.9919, 2.094	Previous high
		1.852, 1.87, 1.9177	Friday's high
	Support	1.8137	Friday's low
		1.7919, 1.788, 1.7638, 1.6055, 1.453	Previous low
RB	Resistance	1.3507, 1.4421, 1.5333	Previous highs
		1.2675, 1.328	Friday's high
	Support	1.2172	Friday's low
		1.21, 1.035	Previous low

contracts to 52,984 contracts in the week ending November 11th. It showed that funds increased their total short positions by 43,275 contracts to 245,251 contracts. The combined futures and options report showed that non-commercials increased their net long position by 1,679 contracts to 80,549 contracts on the week. Given the market's downward trend and increase in open interest of over 58,000 lots in the last few trading sessions this week, non-commercials have continued to add to their short positions, with most traders targeting the \$55 level followed by \$50 level. Meanwhile, the non-commercials in the product markets cut their net long position. The combined futures and options report showed that non-commercials in the heating oil market cut their net long position by 1,758 contracts to 10,807 contracts while funds in the RBOB market cut their net long position by 471 contracts to 35,700 contracts on the week.

Crude Oil (CL) DEC.08 210,674 +11,386 JAN.09 251,522 +26,832 FEB.09 54,443 +3,233 Totals: 1,213,463 +46,340. N.Y. Heating Oil (HO) DEC.08 36,109 -3,717 JAN.09 54,914 +4,543 FEB.09 21,294 +1,333 Totals: 231,011 +4,704 New York Harbor RBOB Gasoline (RB) DEC.08 45,611 -1,013 JAN.09 60,127 +7,252 FEB.09 10,241 +159 Totals: 177,365 +8,165.

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