



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR DECEMBER 10, 2008

Saudi Arabia has informed major customers of a significant cut in its supplies in January. A source said Saudi Arabia's cut was enough to take the country's output below its implied OPEC target.

Nigeria's Oil Minister Odein Ajumogobia said it was not yet clear whether OPEC needs to cut its oil production at its meeting on December 17.

The EIA stated that US gasoline demand is expected to fall more sharply this year and next than in any other two-year period since 1979-1980. It said gasoline demand is expected to fall by 320,000 bpd or 3.4% this year and a further 50,000 bpd or 0.6% in 2009.

According to Euroilstock, Europe's total oil and oil product inventory in November increased by 0.3% on the month and by 3% on the month to 1.117

Market Watch

Koch Supply and Trading has booked a sixth Very Large Crude Carrier to store crude offshore in the US Gulf. The latest booking increases the amount of crude earmarked for floating storage in the region by Koch to 10 million barrels. Oil majors and independent trading houses are storing at least 24 million barrels of crude on oil tankers around the world.

Iran is storing 12 million barrels of crude oil aboard six of its Very Large Crude Carriers offshore in the Persian Gulf, close its Kharg Island export terminal.

According to Deutsche Bank's chief energy economist Adam Sieminski said oil prices will not fall much lower and will rebound to \$80/barrel in 2011 as a recovery in the world economy should begin by the end of next year. He forecast crude oil prices will average \$47.50/barrel in 2009, \$55/barrel in 2010 and increase to \$80/barrel in 2011.

Goldman Sachs said the contango seen in the oil market will likely come to an end soon. It said the further downward pressure on spot prices may soon extend to long-dated oil prices.

An Iraqi Oil Ministry source reported Iraq will restart its oil exports to South Korea's SK Energy on January 1 after SK withdrew from a contract with Iraq's Kurdish region. Iraq will export 65,000 bpd to SK Energy. It is down from the 90,000 bpd Iraq exported to SK before the contract was suspended on January 1, 2008.

A senior Russian Finance Ministry official said Russia may cut its oil export duty to about \$120/ton starting January 1, down from \$192.10/ton from December 1. The official added that the oil export duty will not exceed \$120, even if the price of oil is under \$45/barrel.

DOE Report

Crude – up 400,000 barrels
Distillate – up 5.6 million barrels
Gasoline – up 3.8 million barrels
Refinery Runs – up 3.1% at 87.4%

billion barrels. It reported that crude stocks increased by 0.5% on the month but fell by 0.3% on the year to 476.62 million barrels while gasoline stocks increased by 0.1% on the month but fell by 3% on the year to 120.28 million barrels. It also reported that middle distillate stocks increased by 0.3%

on the month and by 9.9% on the year to 375.98 million barrels. It reported that refinery utilization rate was 91.8% in November compared with 89.31% in October and 89.29% in the previous year.

December Calendar Averages CL – \$44.60 HO –\$1.5060 RB – \$.9936

Refinery News

Colonial Pipeline has allocated cycle 71 of its main distillates line north of Collins, Mississippi as demand for shipping space exceeds capacity.

Valero Energy Corp said the planned work on a crude distillation unit at its 180,000 bpd Delaware City, Delaware refinery was completed and the unit's restart is expected in a day or two. The unit was shut on November 5. Meanwhile, its hydrotreater unit that was shut on Tuesday due to a leak in its exchange pipe is still down. Separately, Valero Energy Corp reported a power outage at complex 1, 4 and 6 in the west plant of its 340,000 bpd Corpus Christi, Texas refinery on Wednesday. A report filed with the Texas Commission for Environmental Quality however did not specify if the interruption had any impact on production.

ExxonMobil said a failure at a boiler feed water pump at its 348,500 bpd Beaumont, Texas refinery's sulfur plant 2 resulted in a rate cut to a catalytic hydrodesulfurization unit.

ConocoPhillips will cut the feed rate at a fluid catalytic cracking unit at its 152,000 Borger, Texas refinery in order to reduce emissions during repairs at associated equipment.

BP may delay the startup operations of a crude unit at its 475,000 bpd Texas City, Texas refinery until December 24. It was expected to begin startup operations on December 10 following the completed of its planned turnaround.

Marathon Oil Corp has cut back production at some of its refineries due to poor refining margins. However Marathon's refining chief said the expansion of its Garyville, Louisiana refinery was on schedule for new units to be in operation by the fourth quarter of 2009.

A fluid catalytic cracking unit at Royal Dutch Shell Plc's 420,000 bpd Pernis refinery is set to restart on Friday following a pipeline fire on December 4.

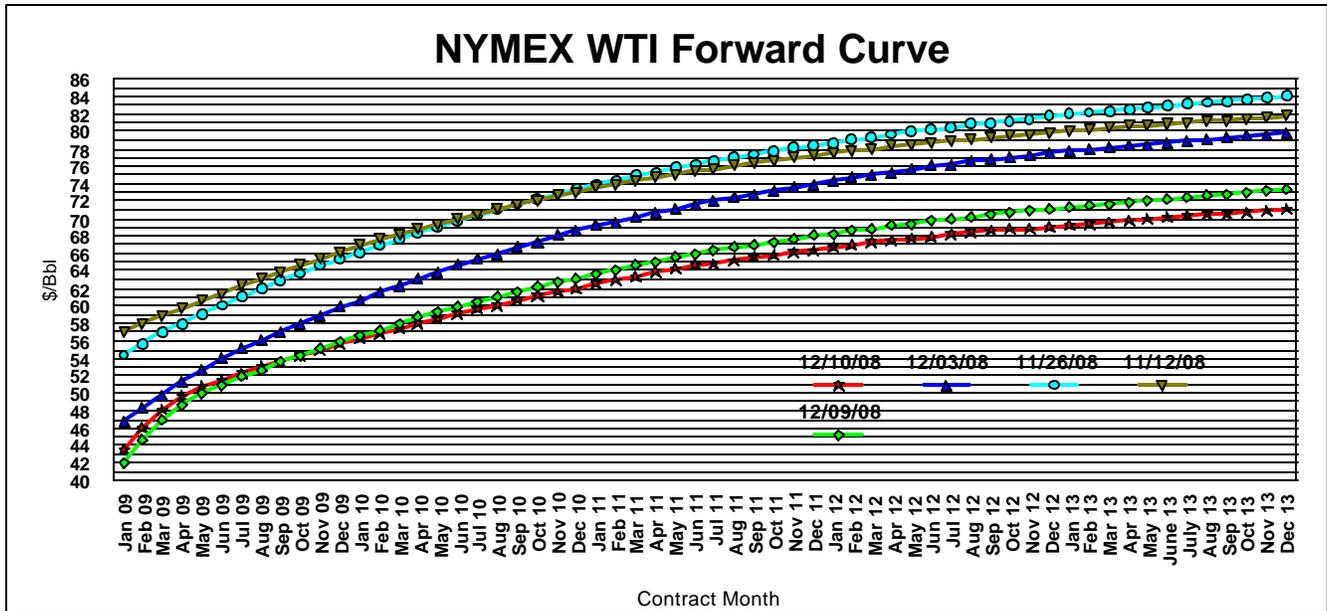
Japan's Nippon Oil Corp restarted a 110,000 bpd crude distillation unit at its Mizushima refinery on Tuesday after shutting the unit for about a month due to lower domestic demand. Meanwhile, operations at its 21,000 bpd fluid catalytic cracking unit and 720 tons/day paraxylene production unit, which are connected to the crude unit and were also shut, have not been restarted.

Indonesia's Pertamina plans to restart its 125,000 bpd Balongan refinery in West Java on December 17 following scheduled maintenance.

According to China's General Administration of Customs, China's crude oil imports in November reached their lowest level this year as the country's refiners reined in buying due to high inventory levels and weakening demand. China imported 13.36 million tons or 3.25 million bpd of crude in November, down 14.6% on the month and 1.8% on the year. In the first 11 months of the year, China's crude imports increased by 9.5% to 164.51 million tons.

German residential heating oil stocks increased to 64% of capacity on December 1, up from 62% on November 1.

A strike continued Wednesday at the Fos-Lavera oil terminals, causing major disruptions. A spokeswoman for the Marseille port said 49 tankers were still waiting to load or unload cargoes. The



strike is in its seventh day. The continuing strike could lead to refinery stoppages starting in the middle of next week.

Japan's Oil Information Center reported that the country's average retail price of gasoline fell to 119.1 yen or \$1.29/liter or \$4.88/gallon, its lowest level since March 2005.

Production News

The Norwegian Petroleum Directorate said Norway's oil production fell to 2.17 million bpd in November from 2.18 million bpd in October.

The January loading program for the four crude streams that from the North Sea benchmark will total 1.46 million bpd, down from 1.49 million bpd in December. Britain's North Sea Brent crude system is scheduled to load 4.22 million barrels in January, down from 4.94 million barrels in December. The North Sea Forties crude oil stream is scheduled to load 19.8 million barrels in January, down from 20.4 million barrels in December. The North Sea Oseberg crude oil system is scheduled to load about 232,000 bpd or 7.2 million bpd in January, down from 237,000 bpd in December. The North Sea Ekofisk crude oil system is scheduled to load 13.5 million barrels, up from 13.35 million barrels in December.

Norway's North Sea Gullfaks crude oil stream is scheduled to load about 331,000 bpd in January, up from 303,000 bpd in December. Norway's Troll crude oil stream is set to load 198,000 bpd in January, down from 216,000 bpd in December.

Mexico announced the closure of its Dos Bocas port due to bad weather on Wednesday.

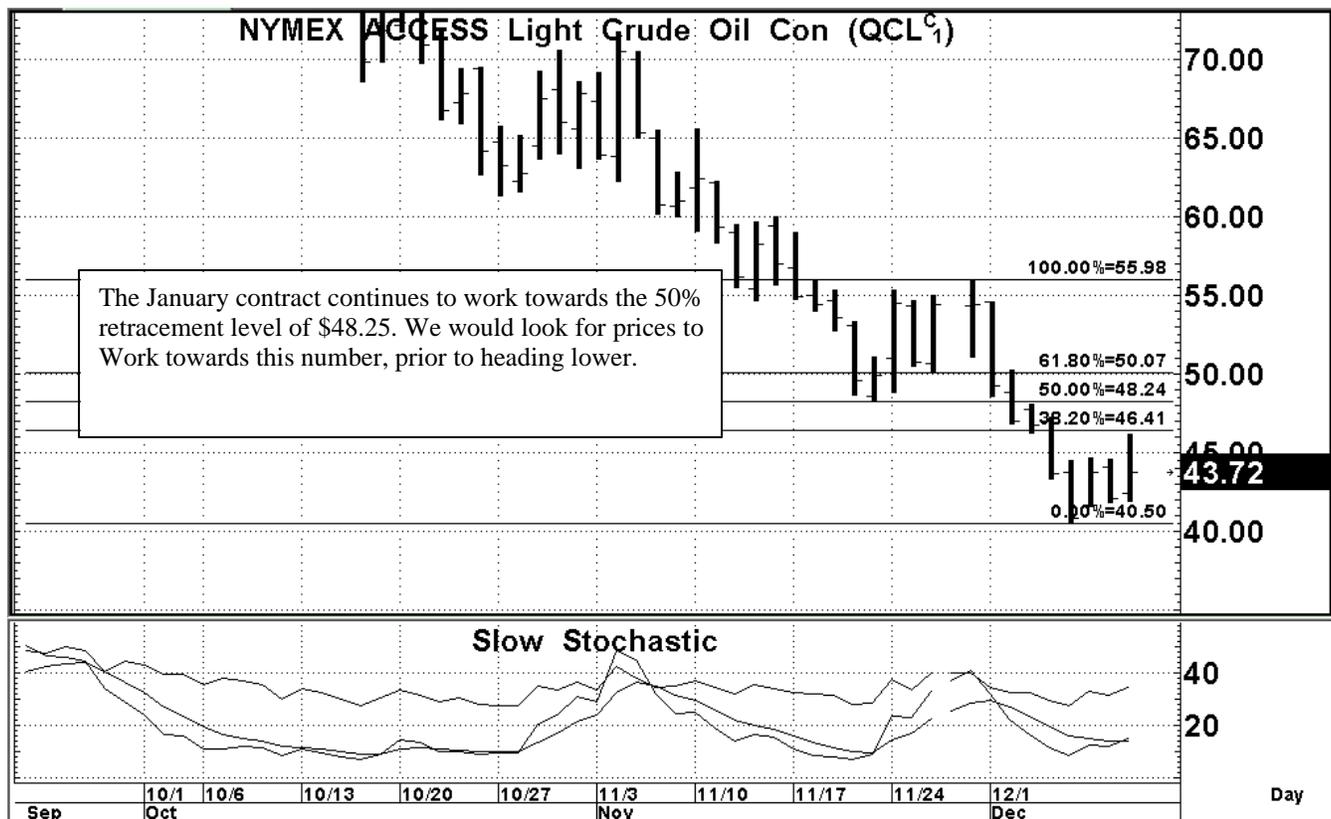
Azerbaijan's Socar announced a tender for 600,000 barrels of Azeri Light crude for loading in January at the Georgian Black Sea port of Supsa.

Russia's Lukoil signed a memorandum of understanding on Wednesday with Argentina's Enarsa and Pobater SA. The joint cooperation will examine the possibility of supplying both fuel oil and gas oil to Enarsa and to use Pobater's infrastructure for fuel storage.

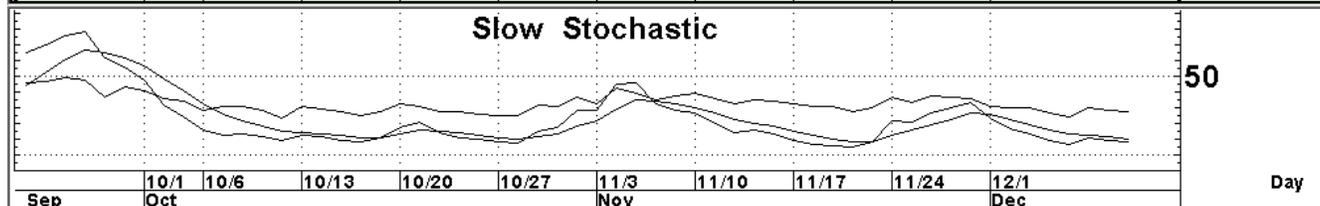
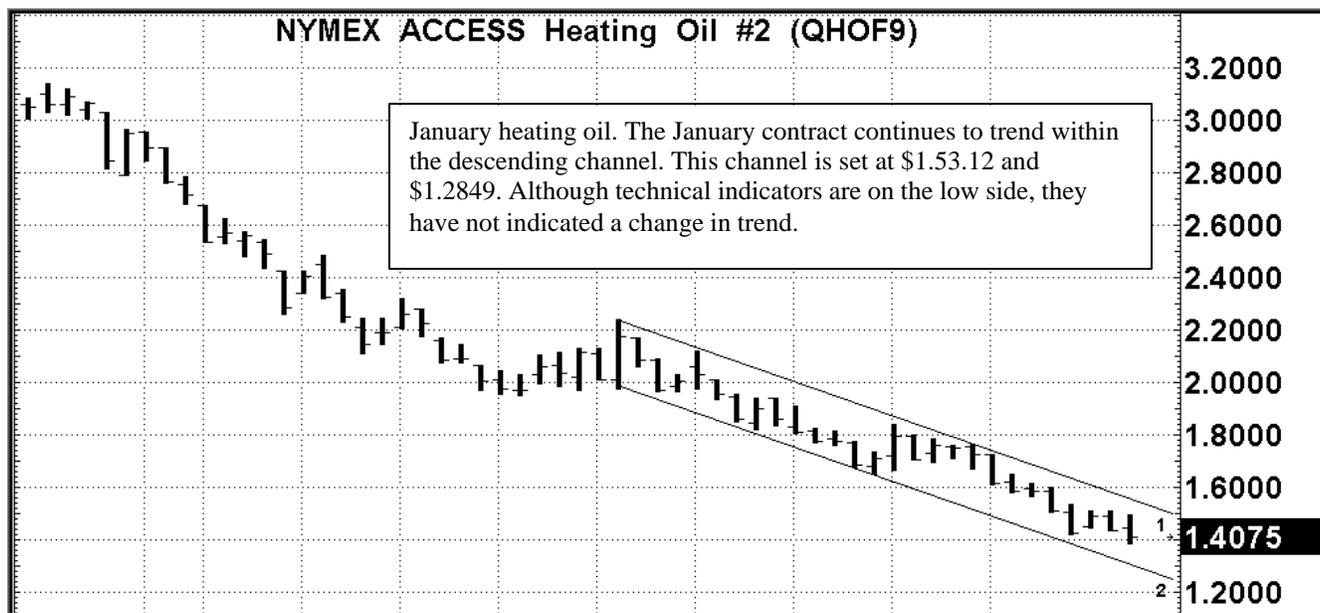
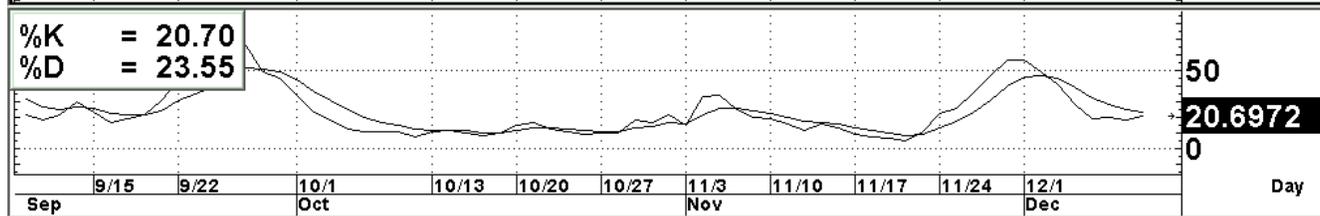
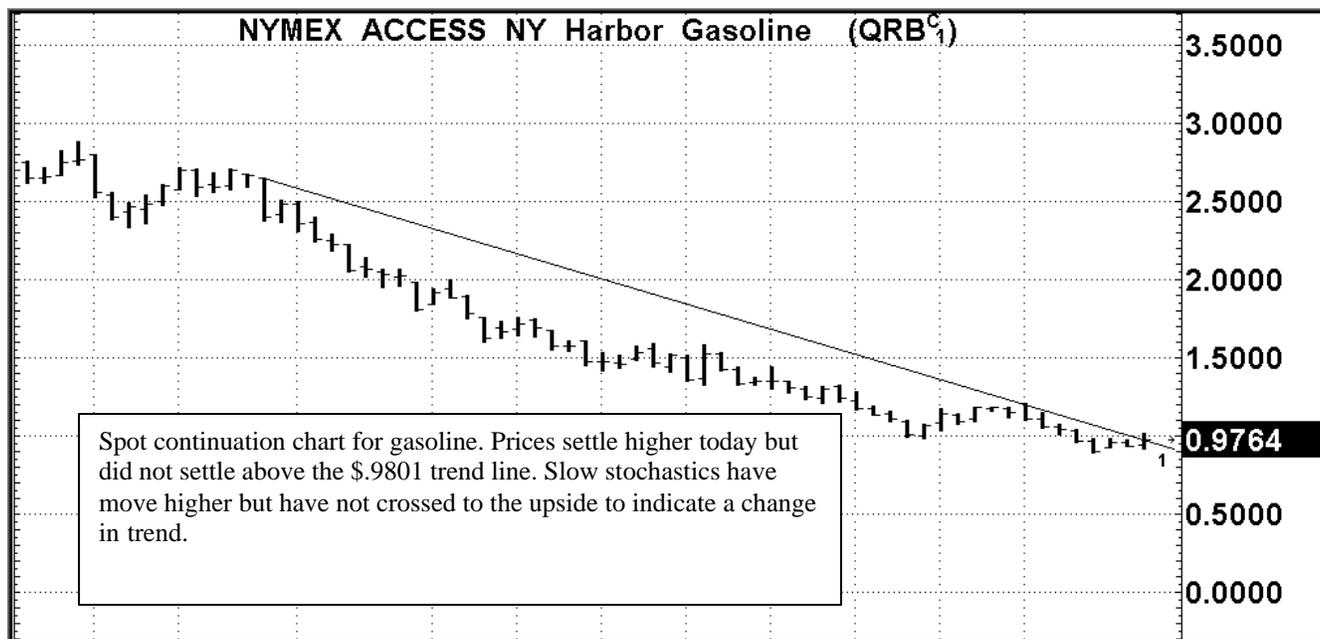
OPEC's news agency reported that OPEC's basket of crudes increased to \$38.19/barrel on Tuesday from \$37.54/barrel on Monday.

Market Commentary

Optimism and hope were the catalysts behind market movement today as prices defied the true fundamentals of the market. Despite bearish API/DOE numbers, which indicated a build of 400,000 barrels in crude oil, a build of 3.8 million barrels of gasoline and a build of 5.6 million barrels of distillates, the price of crude oil rose over \$2.00 a barrel. With what appeared to be a vote in favor of a bailout package for the automobile industry, and hopes that President-elect Barack Obama will be able to turn this economy around, confidence entered the market. There was also talk of Saudi Arabia cutting its production further. Despite today's run-up in prices, we would be cautious in our trading. As mentioned previously, we would look for a slight rebound in this market, prior to the downtrend continuing. Both the slow stochastics and the RSI have turned to the upside, lending support to a higher move. The upside for the January09 crude oil contract remains at \$48.25. The January 09/February 09 crude oil spread held to our conviction that a buy above \$-2.49 and selling against that level would prove profitable. Once strengthening above \$-2.49, this spread gained momentum, topping the session at \$-2.03. Once this spread traded back below the \$-2.49 number, it remained so. We would look for this spread to continue to trade in this fashion, however we would adjust our upside pivotal number from \$-.249 to \$-2.42 and would continue to use \$2.80 as a pivotal number to the downside. Despite a build of 5.6 million barrels in inventories, the gasoline market edged higher. In the after hour floor session, prices continued to rebound. Given the current demand situation, we cannot see prices moving up much more. We would look for extended gains to \$1.0500, and then would reevaluate this market. Heating oil did not mirror the moves of crude oil and gasoline today and in fact settled .342 lower. We would attribute this solely on the demand factor. Distillate demand is running 4% lower on the year based on a four-week average and jet fuel demand is running 16.8% lower for the same four week period. The January contract continues to reflect this bearish scenario, trending within the descending channel. Both percent K and percent D are in oversold territory but have not given an indication that the trend is turning. Until then we would look for the January contract to remain within this descending channel, which tomorrow is set at \$1.5312 and \$1.2849.



Open interest: Crude oil (JAN.09 206,125 -29,798 FEB.09 170,449 +12,553 MAR.09 87,446 -387 APR.09 45,375 -1,143 Totals: 1,168,030 -23,341, Heating oil (HO) JAN.09 44,358 -6,677 FEB.09 35,288 +3,828 MAR.09 27,101 +1,411-Totals: 221,042 -763 NEW YORK HARBOR RBOB GASOLINE (RB) JAN.09 59,650 -6,754 FEB.09 42,432 +5,595 MAR.09 21,195 +1,282 Totals: 190,195 +1,218.



Crude Support	Crude Resistance
40.45, 38.20, 36.75	46.40, 48.25, 50.07, 52.75, 53.75, 57.23, 60.01, 62.79, 65.56, 67.00, 72.53, 74.30,
Heat Support	Heat resistance
1.3450, 1.3005, 1.1895	167.15, 171.85, 176.70, 2.2796, 2.3720
Gasoline support	Gasoline resistance
7760, .6840	1.0134, 1.0500, 1.0866, 115.75, 119.90, 121.90, 136.14

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