



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR DECEMBER 11, 2008

The IEA reported that world oil demand growth will increase despite its fall this year for the first time since 1983 due to the world economic slowdown. It cut its 2008 oil demand estimate by 350,000 bpd to 85.8 million bpd, a 200,000 bpd year on year decline. It reported that demand in 2009 is estimated to rebound to 86.3 million bpd, based on the International Monetary Fund's assumption the world economy will gradually recover in the second half of next year. The IEA reported that stocks at the end of October

Market Watch

According to a Reuters survey, OPEC is expected to announce another cut of about 1.5 million bpd in oil production at its December 17 meeting. Eleven banks, companies and research groups surveyed were unanimous in their view that OPEC would cut at least 1 million bpd at its meeting.

The CFTC proposed rules for greater oversight of exempt commercial markets. The proposed rules provide the Commission with the tools necessary to oversee the exempt commodity markets, allowing it to protect the integrity of the price discovery function of regulated futures markets. It would create a regulatory category, exempt commercial markets with a significant price discovery function, and subject electronic trading facilities to additional regulatory and reporting requirements.

According to the Labor Department, the number of US workers filing new claims for state unemployment benefits increased by 58,000, more than twice the expected increase of 24,000, to a seasonally adjusted 573,000 in the week ending December 6. The four week average of new claims reached a nearly 26 year high, increasing by 14,250 to 540,500 from the previous week's revised average of 526,250. The continuing claims increased by 338,000 to 4,429,000. The unemployment rate increased to a 16 year high of 3.3%.

The National Iranian Tanker Co will take delivery of three new oil supertankers in the first quarter of 2009. It currently operates 25 supertankers which can each hold 2 million barrels of oil. The new tankers are part of its plan to increase its very large crude carrier fleet to 38 supertankers to meet growing demand for oil shipping. It is also scheduled to take delivery early next year of a new Suezmax oil tanker capable of holding up to 1 million barrels.

The Iraqi government has called for the administration of US President-elect Barack Obama to initiate sustained dialogue with Iran in hopes of greater Middle Eastern stability. In a shift from outgoing President George W. Bush, President-elect Barack Obama has said he favors direct engagement with Iran, even as he threatens to toughen sanctions over Iran's nuclear program.

ICE reported that 293 lots or 29,300 tons of gas oil will be delivered against the expired December contract, down from 757 lots or 75,700 tons in November.

The USDA lowered its forecast for corn usage by the ethanol sector to 3.7 billion bushels, down 300 million bushels from its November forecast. It said prospects for blending above federally mandated levels will decline. The ethanol industry has been plagued by financial problems and falling gasoline prices that have led to bankruptcy. It noted that the industry's financial problems are reducing plant capacity utilization and delaying plant openings. It said any further cuts to its forecast will require continuing poor margins and a drop in oil prices. It added that ethanol's demand will remain relatively stable as long as the federal mandate does.

equaled 56.8 days of demand, well above the five year average. It estimated the call on OPEC in 2009 at 30.7 million bpd, compared with 31.5 million bpd in 2008. It also stated that the rising levels of oil being stored in supertankers reflects the amply supplied global spot market. It said as many as 16 tankers have been booked for floating storage over the last few months, which equate to 26 million barrels. The IEA also said oil refineries will process less crude in the first quarter of next year due to

December Calendar Averages

CL – \$44.98

HO –\$1.5061

RB – \$ 1.003

weak demand, cutting its crude oil throughput by about 400,000 bpd from the same period this year. Global refining crude oil throughput would average 73.5 million bpd in the first quarter of 2009. It also warned that the credit crunch was hampering refiners' ability to optimize operations at their plants. Separately, the IEA reported that Venezuela's oil production in November remained

unchanged at 2.35 million bpd.

OPEC President Chakib Khelil said OPEC should agree on a more severe cut in production at its meeting next week on December 17th. He said OPEC should take action to ensure the removal of surplus oil stocks.

Saudi Arabia's Oil Minister Ali al-Naimi said the country's oil production in November was in line with its OPEC output target in November. He said Saudi Arabia produced 8,493,300 bpd in November. Saudi Arabia's major oil customers have said the country will supply them with less oil in December. Industry sources said they expect January shipments to be below its existing OPEC supply target, implying Saudi Arabia expects OPEC to agree on a further cut when it meets next week.

The head of Libya's National Oil Co, Shokri Ghanem said the IEA's report, forecasting a world oil demand decline this year, will weigh on OPEC's meeting.

Russia's President Dmitry Medvedev said Russia is ready to work with OPEC on possible oil output cuts. He said Russia may lower oil output to support prices. Russia's Energy Minister Sergei Shmatko said Wednesday Russia would present proposals on possible production cuts at OPEC's meeting.

According to Oil Movements, OPEC's oil exports, excluding Angola and Ecuador, will fall by 110,000 bpd to 23.99 million bpd in the four weeks ending December 27, in a strong counter seasonal move. The head of Oil Movements, Roy Mason said OPEC's exports will average 900,000 bpd less than the summer peak reported in early August.

Refinery News

The Louisiana Offshore Oil Port was closed early Thursday due to bad weather conditions in the US Gulf Coast. There was one oil tanker waiting to be off-loaded.

The Sabine Ship Pilot Association said it resumed service late Thursday morning after poor weather conditions stopped pilots from boarding ships in the Sabine Pass.

Colonial Pipeline has allocated shipments on the main gasoline line north of Collins, Mississippi for cycle 71 as demand for space exceeds capacity.

Valero Energy Corp said it restarted all units shut by a power outage early Wednesday at the West Plant of its 340,000 bpd Corpus Christi, Texas refinery. Several units, including a crude unit and a hydrocracker, were shut due to the power outage. Separately, Valero said it expected no significant impact to production at its 325,000 bpd Port Arthur, Texas refinery due to a problem in a crude unit that triggered the plant's safety flare system on Tuesday. Valero also said its crude unit at its Delaware City, Delaware refinery is in restart mode on Thursday following about five weeks of planned maintenance that was completed on Wednesday.

ConocoPhillips reported a problem at its 153,000 bpd Borger, Texas refinery on Wednesday. A report filed with the Texas Commission for Environmental Quality did not specify which units were involved or whether production was impacted.

Total's crude distillation unit at its 153,000 bpd Vlissingen refinery is expected to resume operations on Sunday following the completion of about two weeks of unplanned maintenance.

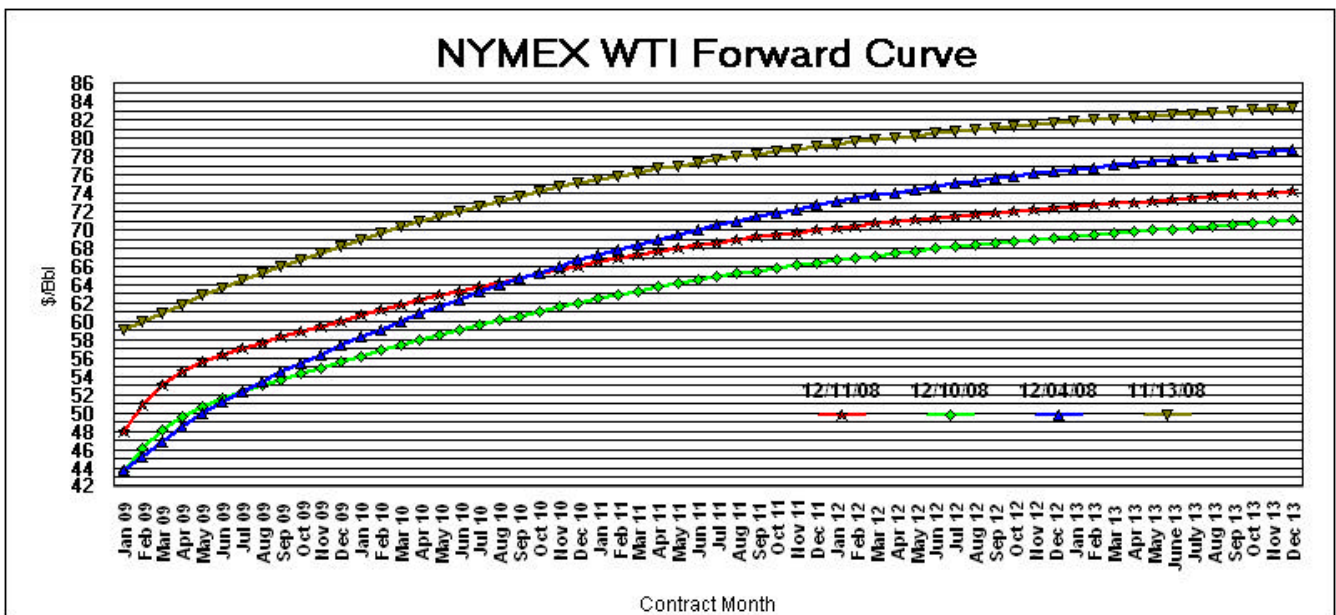
Striking port workers at the Fos-Lavera oil hub near Marseille were blocking a total of 56 ships, including 14 oil tankers and 28 oil product vessels on Thursday.

ExxonMobil has cut runs at its 115,000 bpd Fos-sur-Mer refinery since Friday due to the strike at the Fos-Lavera oil terminal.

India's Mangalore Refinery & Petrochemicals Ltd expects a delay of more than a year to October 2011 of the third phase of its expansion project due to market conditions.

Gas oil stocks in independent oil storage in the Amsterdam-Rotterdam-Antwerp terminal in the week ending December 11th increased by just 0.49% on the week and by 33% on the year to 1.842 million tons. Gas oil imports came from Canada, India, Norway, Russia, the UK and the US. Gasoline stocks increased by 3.71% on the week but fell by 6.2% on the year to 726,000 tons, with imports coming from France, Norway, Russia and the UK while outflows went to Mexico, Nigeria and the US. Fuel oil stocks increased by 21.3% on the week and by 59.4% on the year to 620,000 tons while naphtha stocks fell by 8.73% on the week but increased by 22.34% on the year to 115,000 tons and jet fuel stocks increased by 16.45% on the week and by 270.35% on the year to 637,000 tons.

Singapore's International Enterprise reported that the country's residual fuel stocks fell by 759,000 barrels to 19.946 million barrels in the week ending December 10th. It also reported that Singapore's



light distillate stocks fell by 294,000 barrels to 8.757 million barrels while middle distillate stocks built by 1.114 million barrels to 11.865 million barrels on the week.

Production News

The Minerals Management Service reported that US Gulf of Mexico energy production should resume full rates by March after Hurricanes Gustav and Ike shut in 100% of oil and 98% of natural gas production. Currently, about 15% of oil and 21% of natural gas production remains offline.

Nigeria's January crude oil export plan for Forcados crude shows five cargoes of 950,000 barrels each. Traders said they are still waiting for details of the Brass River crude oil program.

The Canadian Association of Petroleum Producers estimates the country's oil production at 3.6 million bpd in 2015, down about 300,000 bpd from its annual forecast made in June. Falling oil prices and the financial market turmoil has prompted a number of delays to proposed developments in Alberta's oil sands.

Mexico's three main oil exporting ports remained shut for a second day on Thursday due to bad weather conditions.

Mexico's Energy Ministry said the country's oil exports could fall as low as 875,000 bpd by 2017, down more than 30% from its current level. It also said total crude oil output would fall to 2.75 million bpd in 2009 as yields decline at the aging Cantarell field. It said it would recover gradually to 3.021 million bpd by 2017.

OPEC's news agency reported that OPEC's basket crude fell slightly to \$37.94/barrel on Wednesday from \$38.19/barrel on Tuesday.

Encana Corporation plans to invest about \$4.5 billion or about 60% of its 2009 forecast cash flow, to maintain total natural gas and oil production at 2008 level. It also plans to invest \$1.6 billion of capital in long-term production and refining assets, continue to build the coker and refinery expansion project at the Wood River refinery in Illinois, expansions of upstream oil projects in northeast Alberta, development of the Deep Panuke natural gas project offshore Nova Scotia and other long term upstream projects.

Market Commentary

The price of a barrel of crude oil rose for the second straight day as it reacted to statements by the Saudi oil minister that his country is pumping close to its 8.477 million barrel per day OPEC quota. With the upcoming OPEC meeting set for next week and the possibility of more cuts, the January crude oil contract exceeded our expectations of \$48.25. Prices should remain supported until further details emerge from next week's meeting. The next level to the upside is \$50.07, the 62% retracement number between the range of \$55.98 and \$40.50. Despite today's aggressive move in flat price, the January/February crude oil spread remained weak, trading below the \$2.80 level. As mentioned previously, we liked being sellers of this spread with failures to trade above \$-2.42 and sellers below \$-2.80. Both of these levels were tested today, allowing for quick profits. We would look for this spread to continue lower, pressured by the demand factor. Gasoline, once breaking above \$1.0170, took off another 4 cents. Any shift in demand will surely send this market screaming higher. Year on year demand has already reflected an increase as prices drop from their record highs. Technical indicators have now crossed to the upside, indicating that this market can go higher. With next week's OPEC meeting, we would look for support, with a test of the \$1.2050 resistance level. Heating oil followed the rest of the complex higher, topping the day at \$1.5508. Although technical indicators are still in oversold territory they have crossed to the upside. We would look for this market to work higher, but at a slower pace compared to the crude oil and gasoline markets.

Open interest: Crude oil (JAN.09 175,364 -30,761 FEB.09 187,791 -17,342 MAR.09 91,475 +4,029

APR.09 44,547 -828 Totals: 1,155,232 -12,798, Heating oil (HO) JAN.09 38,272 -6,086 FEB.09 39,598 +4,310 MAR.09 27,454 +353 -Totals: 221,294 +252 NEW YORK HARBOR RBOB GASOLINE (RB) JAN.09 55,392 -4,258 FEB.09 49,825 +7,393 MAR.09 22,502 +1,307 Totals: 195,683 +5,488.

Crude Support	Crude Resistance
40.45, 38.20, 36.75	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	115.75, 120.50, 121.90, 136.14

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