



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR DECEMBER 26, 2007

Turkey's general staff said Turkish warplanes bombed Kurdish guerrilla targets in northern Iraq on Wednesday, in the fourth cross border raid in five days. The Turkish military said its offensive against the outlawed PKK inside Turkey and across the border in northern Iraq would continue.

Turkish aircraft also struck targets across northern Iraq on Saturday, Sunday and Tuesday. According to an Iraqi official, the strike lasted about an hour in a mountainous border region of Dahuk province and inflicted no casualties.

Russian Foreign Minister Sergei Lavrov said Iran has no economic need to proceed with its uranium enrichment program following Russia's delivery of nuclear fuel to the Bushehr power station. He said Russia was trying to persuade Iran that freezing the program was to their advantage, as it would immediately lead to talk with the five permanent members of the UN Security Council and Germany. The talks would aim to end any suspicion that Iran had any secret aim to produce nuclear weapons.

According to the MasterCard Advisors LLC, US gasoline demand in the week ending December 21 increased by 0.9% or 597,000 barrels on the week to 67.919 million barrels or 9.703 million bpd. The four week average demand level was 65.518 million barrels or 9.36 million bpd. It reported that retail gasoline prices fell by 1 cent to an average \$2.98/gallon over the week.

Dec Calendar Averages
CL – 90.96
HO – 256.55
RB – 232.20

Refinery News

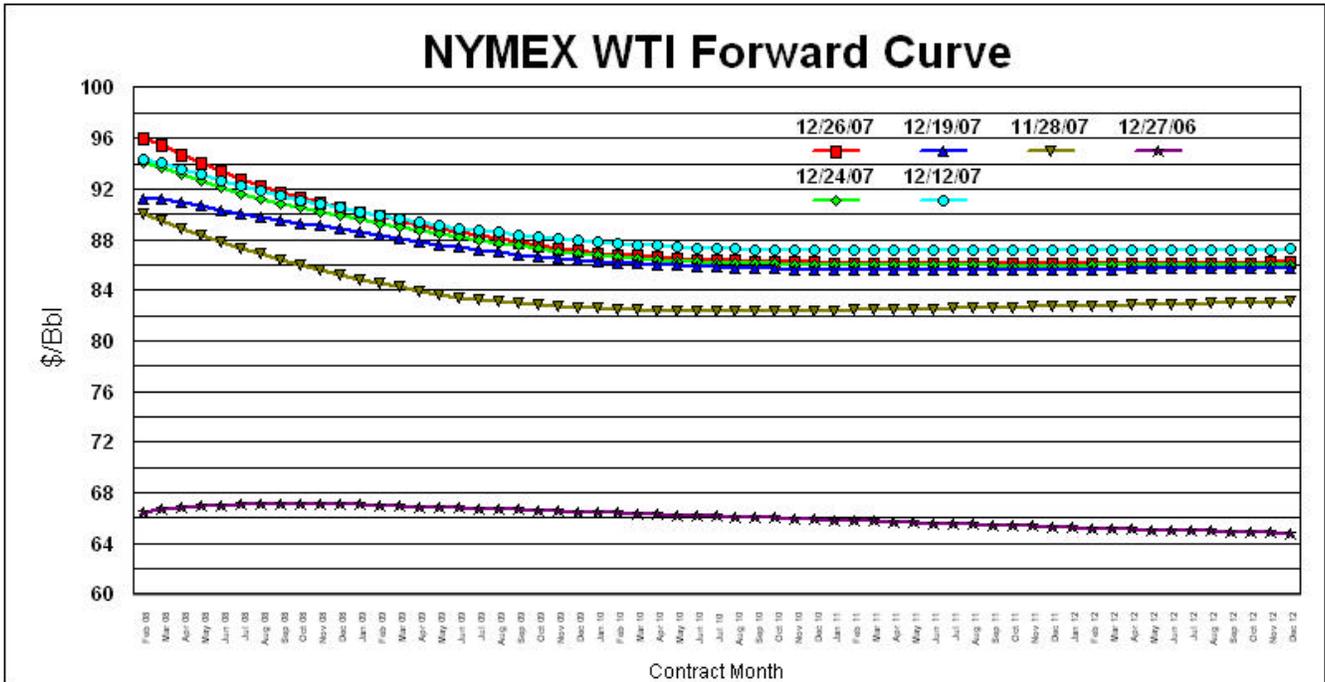
All the main processing units at Valero Energy Corp's 245,000 bpd Texas City, Texas refinery has been restarted following a power outage on December 3.

Western Refining Inc said a coker unit was operating at reduced rates at

Market Watch

According to WSI Corp, temperatures in the Northeast are expected to average above normal in January and February but remain colder than normal in March.

China said it was not a threat to world energy security and energy issues should not be politicized. It said conflicts in producing nations should be resolved through dialogue and not military force. According to a policy paper, China said it was too reliant on international crude markets for last minute oil supplies and needs to arrange more long term deals. It also reiterated China's commitment to liberalizing energy prices.



its Virginia plant and is expected to resume full operations on Thursday. Operating rates were reduced at the coker unit following a build up of pressure that resulted in the release of hydrocarbons over the weekend.

Mexico's Transport Ministry said one of Mexico's three oil export terminals, Dos Bocas reopened early on Tuesday following a two day closure due to bad weather. A cold front moved through the Gulf of Mexico over the weekend, closing all three oil ports on Sunday. The ports of Cayo Arcas and Coatzacoalcas, reopened on Monday.

A fire started at Royal Dutch Shell's 156,000 bpd refinery in the southwestern Malaysian town of Port Dickson on Wednesday, temporarily disrupting operations. The fire cause minor damage to the refinery's flare stack.

Nippon Oil Corp said it planned to refine 4.85 million kiloliters or 984,000 bpd of crude in January to meet domestic demand, up 10% on the year. Nippon Oil's December crude refining volume was estimated at 4.78 million kl, down 1% on the year.

Nippon Oil Corp said it would conduct planned maintenance of a crude distillation unit at its Marifu refinery between mid-March and mid-April.

Japan Energy Corp said it planned to raise its crude processing volumes for the January-March period by 16% on the year to 6.41 million kiloliters or 443,000 bpd. The increase reflects the scheduled start of commercial operations of a petrochemical complex in January.

Russian pipeline builder Stroytransgaz said it was negotiating with the Iraqi Oil Ministry and the North Oil Co on a contract to repair an oil pipeline linking Iraq with the Syrian part of Banyas. It said the next round of talks would take place in the second half of January.

Production News

Arabian Oil Co is expected to withdraw from operations at the Khafji oilfield in Kuwait after a contract that let it send its engineers there expires next week on January 4. Kuwait's own engineers are now experienced enough to assume operational responsibilities from the Arabian Oil engineers stationed there.

Mexico's Energy Ministry reported that oil production from Mexico's Cantarell offshore field fell to 1.277 million bpd in November. It was the lowest monthly output level this year at the field.

Indonesia's BPMIGAS stated that Indonesia's crude oil production is likely to increase to 837,600 bpd in December from 823,000 bpd in November.

China's Ministry of Finance reported that the country would halve its import tax on gasoline, diesel and kerosene to 1% next year in the latest effort to encourage more overseas buying to meet strong demand. Starting on January 1, the import duty for fuel oil would be kept at the same rate of 3%. The cuts on diesel import duty come just days after China decided to waive its 17% value added tax on diesel fuel imports between December and March to help the country cope with domestic shortage.

Russia's Slavneft said its oil production is expected to remain flat until 2012 as it replaces declining output in West Siberia with new fields in East Siberia. It is expected to produce about 21 million tons this year, down from 23.2 million tons last year. Its production is expected to total 21.2 million tons or 425,000 bpd in 2012.

Market Commentary

Turkish air strikes in northern Iraq sparked off a rally in crude today, only to be propelled further by less than expected inventory numbers due out tomorrow. A weak dollar led to higher crude oil prices. Crude futures can be used as a hedge against a weak dollar, and oil futures bought and sold in dollars are more attractive to foreign investors when the dollar is weak. Perhaps this move was a little exaggerated due to the fact that volume is light because of the Christmas holiday. The 8-14 day forecast is calling for average to above average temperatures across the U.S., so we would not look for a significant impact on slight draws in the API/DOE numbers. With a breakout of the 0.37 resistance area in the February/March spread, it is possible for this spread to move back out to as far as the \$1.10 area, considering the current strength in the market. Total open interest in crude oil is 1,325,751 down 4,583, FEB.08 325,326, down 3,619, March 154,587, down 137. The product markets remained supported and rallied higher amid the strength in the crude market. The heating oil market posted a low of 259.40 in overnight trading and bounced off that level. The market extended its gains to over 8.5 cents as it rallied to a high of 268.01 early in the session with light volume trading.

The market later gave up some of its gains and settled in a sideways trading range ahead of the close. It settled up 4.65 cents at

		Explanation
CL	Resistance	97.28, 98.12, 99.29
	95.97, up \$1.84	96.54
	Support	95.30, 94.35, 93.99
		93.34, 91.86, 90.38, 86.63, 85.55, 83.00, 76.19
HO	Resistance	268.61, 270.57, 273.85
	264.12, up 4.65 cents	268.01
	Support	263.60, 260.65, 259.40
		256.58, 253.91, 253.32, 250.32, 247.50, 246.24
RB	Resistance	248.40, 254.28
	245.26, up 6.86 cents	246.88
	Support	244.25, 243.45, 240.00, 238.41
		235.97, 235.75, 233.10, 231.05, 229.93, 228.90

264.12. The RBOB market, which posted an inside trading day on Monday, posted a low of 238.41 and rallied higher following the opening of the open outcry session. The market extended its gains to over 8.4 cents as it rallied to a high of 246.88. The market later retraced some of its gains and settled up 6.86 cents at 245.26. The markets will likely continue to trade higher amid the expectations that the weekly petroleum stock reports would show draws in stocks. In the heating oil, support is seen at 263.60, 260.65, 259.40 followed by 256.58, 253.91, 253.32, 250.32, 247.50 and 246.24. Resistance is seen at 268.01, 268.61, 270.57 and 273.85. In the RBOB support is seen at 244.25, 243.45, 240.00, 238.41, 235.97, 235.75 followed by 233.10, 231.05, 229.93 and 228.90. Resistance is seen at 246.88, 248.40 and 254.28.