



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR DECEMBER 31, 2008

The head of the National Iranian Oil Co, Seifollah Jashnsaz said Iran will cut its production by 14% or 545,000 bpd starting January 1 in line with OPEC's decision to cut production. Iran's OPEC governor, Mohammad Ali Khatibi also said Iran would reduce its production by 545,000 bpd.

The US DOE said it may restart buying crude oil for the SPR next month as oil prices have declined. The DOE made its announcement after Representative Edward Markey, chairman of the House Select Committee on Energy Independence and Global warming called on the Bush administration to restart filling the SPR.

Market Watch

The S&P Goldman Sachs Commodity Index and the DJ-AIG Commodity Index will increase their WTI crude weightings but cut their natural gas weighting. The S&P GSCI is increasing its WTI crude weighting by 1.5% from 30.6% to 32.1% as it rolls its February positions into March. Its RBOB weighting will also increase by 0.2% to 3.4% while its heating oil weighting will fall by 0.3% to 4.3%. Its natural gas weighting will fall by 0.6% to 8.5%. The DJ-AIGCI is increasing its crude weighting by 4.9% to 13.8%, its RBOB weighting by 1.5% to 3.7% and its heating oil weighting by 0.7% to 3.6% while its natural gas weighting will fall by 2.1% to 11.9%.

The US Labor Department said initial claims for unemployment benefits fell by 94,000 to a seasonally adjusted 492,000 in the week ending December 27. The four week average of new claims fell by 5,750 to 552,250 from 558,000. The number of continuing claims increased by 140,000 to 4,506,000. The unemployment rate for workers with unemployment insurance increased to 3.4% from 3.3%.

Iran's parliament may vote to scrap energy subsidies after a motion presented by President Mahmoud Ahmadinejad was approved by a majority of lawmakers on Wednesday. Domestic fuel and utility prices will increase if an economic reform bill is passed, with some funds redistributed to low income families.

China lifted temporary price controls on liquefied petroleum gas, power station coal and some staple foods such as grains and cooking oil as inflation eased. The removal of the price caps will take effect on January 1st.

The NYMEX announced that effective at the close of business Friday, January 2nd, it will cut the margin requirement for its Heating Oil, its NY Harbor Heating Oil Calendar Swap and its Heating Oil financial contract. The margin requirement for non-members will fall from \$11,475 to \$10,125 for the spot contract while the requirement for the second and third nearby contract will fall from \$11,138 to \$9,788. It also announced that it will cut the margin requirement for its RBOB contract, its RBOB Calendar Swap contract and its RBOB financial contract. The margin rates for non-members will fall from \$10,800 to \$9,450 for the spot contract while the margin requirement for the second and third nearby contract will fall from \$10,125 to \$8,775.

DOE Stocks

Crude – up 500,000 barrels
Distillate – up 700,000 barrels
Gasoline – up 800,000 barrels
Refinery runs – down 2.2%, at 82.5%

A foreign ministry official said Israel is examining international proposals to reach a permanent ceasefire in its offensive against Hamas targets in the Gaza Strip. Earlier, Israeli officials said the country decided to reject an immediate 48-hour pause in its offensive against Hamas. Meanwhile, Hamas militants fired two rockets deep into Israel on Wednesday. Israeli media said the Grad-type

rockets caused no injuries or damage. Hamas vowed to fight “until the last breath” if Israel sends ground forces into the Gaza Strip.

Refinery News

Valero Energy Corp restarted a fluid catalytic cracking unit at its Paulsboro, NJ refinery after it was shut for maintenance early this month. However another fluid catalytic cracking unit shut due to low margins remains offline.

LyondellBasell Industries' 272,000 bpd Houston refinery is operating at planned rates while the company considers filing for bankruptcy protection.

The Sabine Ship Pilots Association resumed service Wednesday at the Sabine-Neches waterway. It had halted ship boarding earlier on Wednesday due to poor visibility resulting from fog.

Gas oil inventories in independent storage in the Amsterdam-Rotterdam-Antwerp hub in the week ending December 31st increased to its highest levels this year due to increases in imports and a steep contango. Gas oil stocks totaled 2.141 million tons, up 6.8% on the week and up 57.8% on the year. Gasoline inventories increased by 17.8% on the week but fell by 0.7% on the year to 848,000 tons while fuel oil stocks fell by 9.9% on the week and by 11.9% on the year to 567,000 tons. Naphtha stocks fell by 14.6% on the week but increased by 48.9% on the year while jet fuel stocks fell by 1.01% on the week but increased by 240.8% on the year.

China Oil, Gas & Petrochemicals reported that the country's commercial gasoline and diesel inventories increased to record highs in November. It reported that gasoline inventories held by CNPC and Sinopec at the end of the month increased by 5.14% on the month to 34.8 million barrels while diesel stocks increased by 0.8% to 52 million barrels.

Taiwan's CPC bought one VLCC or 2 million barrels of West African crude for February loading.

Indonesia's Pertamina cut its product imports for January to about 8.58 million barrels, down nearly 10% on the year as demand declines. It bought 3 million barrels of diesel, down 36% on the year; 280,000 barrels of jet fuel, down 30% on the year; and 300,000-400,000 barrels of fuel oil, down 50% on the year. However Pertamina's gasoline imports increased to 5 million barrels. Meanwhile, Indonesia's Pertamina has delayed the restart of its 125,000 bpd Balongan refinery until January 9 due to problems with some facilities. It was expected to restart on December 17 after it was shut on October 18 for planned maintenance.

Production News

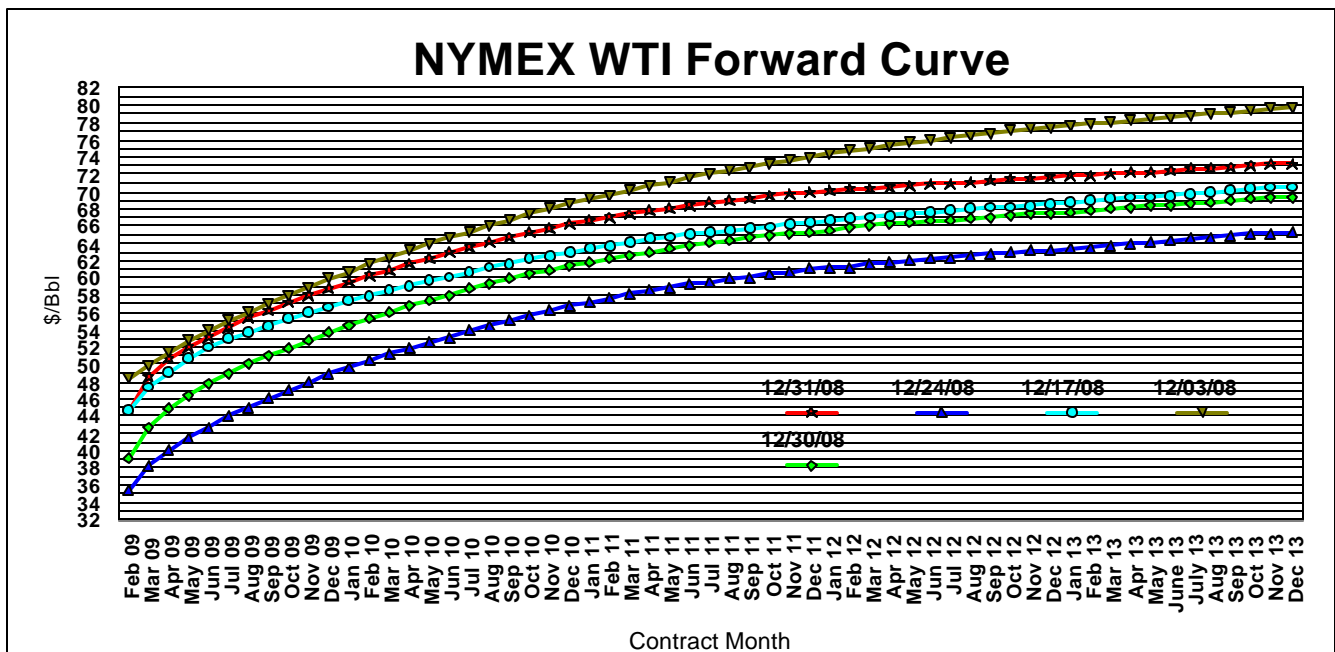
Iraq on Wednesday offered 11 oil and gas fields to international firms in its second bid round. Iraq's Oil Minister Hussain al-Shahristani said new oil and gas fields put up for bidding on Wednesday could increase Iraq's production by 2-2.5 million bpd within 3-4 years from the end of 2009. Contracts for the second bidding round are expected to be signed by the end of 2009. In June, Iraq announced its first bidding round for eight oil

December Calendar Averages

CL – \$42.04

HO – \$1.4212

RB – \$.9667



and gas fields that could increase the country's production by 1.5 million bpd. Iraq's Oil Minister also said that the oil ministry is in the process of drawing up plans to launch a third round of tenders to develop domestic oil and gas fields. He however did not say when the third bid round would be launched.

Iraq halted its Kirkuk oil exports through its northern pipeline to Turkey on Wednesday. The pipeline was pumping at about 432,000 bpd before the exports were halted. Iraqi oil in storage at Ceyhan stood at about 4.2 million barrels as of Wednesday.

China's Xinhua News Agency reported that crude oil production at PetroChina's Daqing oilfield fell by 3.6% on the year to 40.2 million tons or 804,000 bpd in 2008. Natural gas production reached 2.76 billion cubic meters. A PetroChina official has previously stated that the company is aiming to maintain Daqing's oil production at 40 million tons until 2020.

China's Sinopec Group has added 104.08 million tons or 760 million barrels of proven geological oil reserves to its largest Shengli oilfield. It said 21.84 million tons of the oil reserve was recoverable. It also added 450 million cubic meters of proven natural gas deposits, of which 216 million cubic meters are recoverable.

Indonesia's Pertamina's oil production is expected to increase to 169,750 bpd in 2009 from 156,000 bpd this year. The increase will mainly come from the Cepu block.

Ecuador's central bank reported that the country's oil product export revenue between January and October increased by 62% to \$1.04 billion from the \$640.12 million reported last year. It exported 12.23 million barrels in the first ten months of the year, down 1% from the 12.36 million barrels reported during the same period last year.

The Colombian Sugar Cane Producers Association said the country's ethanol production in October fell by 93% on the year to 1.825 million liters. Total ethanol production from January-October fell by 6.5% to 215.972 million liters.

Market Commentary

On the last trading session of the year, the oil market posted an outside trading day after it traded mostly sideways on Tuesday. The market traded lower in overnight trading and posted a low of \$36.94. However the market bounced off this level and never looked back as it was well supported, with traders squaring their positions for year-end. The crude market was supported despite the unexpected build reported in crude stocks of 500,000 barrels on the week, leaving stocks up more than 10% higher on the year. The market rallied over \$6.50 as it posted a high of \$45.54 ahead of the close and settled up \$5.57 at 44.60. In addition to the book squaring, the oil complex may have also been supported by buying ahead of the rebalancing of the S&P Goldman Sachs Commodity Index and the DJ-AIG Commodity Index, which are expected to increase their weightings in the oil market. Similar to the crude market, the product markets also settled sharply higher ahead of the January contract's expiration, with the January heating oil contract settling up 11.77 cents at \$1.4057 and the January RBOB contract settling up 12.29 cents at \$1.0082. The heating oil market held its support and rallied higher to a high of \$1.442 ahead of its expiration. The market was well supported by the lower than expected build of 700,000 barrels as demand increased by 4.68% on the week to 4.592 million bpd. Meanwhile, the February heating oil contract settled up 13.6 cents at \$1.4421 after it rallied to a high of \$1.456. Similarly, the January RBOB contract, which posted a low of \$.8545 in overnight trading, rallied to a high of \$1.0351 ahead of its expiration. Gasoline stocks saw a lower than expected build as apparent demand increased by 0.98% to 9.97 million bpd on the week. The February contract settled up 12.92 cents at \$1.062. The oil complex will likely retrace some of today's gains on Friday before it continues to retrace its previous losses. However the markets' gains will remain limited so long as the economic news continues to dent demand.

Open interest: Crude FEB.09 279,301 -4,389, MAR.09 141,019 +6,135 APR.09 61,525 +3,019 MAY.09 37,029 +1,420 Totals: 1,169,215 +4,455 Heating oil (HO) JAN.09 4,503 -5,751 FEB.09 56,164 -1,844 MAR.09 31,781 +977 APR.09 19,963 -255 Totals: 226,522 -1,639 NEW YORK HARBOR RBOB GASOLINE (RB) JAN.09 5,184 -5,093 FEB.09 78,973 +2,327 MAR.09 29,407 +1,174 APR.09 20,082 +713 Totals: 194,464 -823.

Crude Support	Crude Resistance
36.94, 35.60, 34.31, 33.75, 32.25, 29.66, 28.63, 26.65, 25.50	45.54, 47.50, 50.07, 52.13, 52.95, 53.75, 56.76, 57.20
Heat Support	Heat resistance
1.40, 1.3488, 1.30, 1.2784, 1.2670, 1.2245, 1.2136	1.456, 1.5075, 1.56, 1.6134, 1.6298, 1.7369
Gasoline support	Gasoline resistance
.9790, .9300, .9000, .8755, .8260	1.085, 1.0866, 1.1363, 1.1575, 1.2050, 1.2190, 1.2322, 1.3614

Please note the NYMEX floor will be closed Thursday for the New Year's holiday. Normal trading hours will be observed on Friday. Electronic trading on Globex will close at 5:15 pm EST on Wednesday and reopen at 6pm EST on Thursday for the Friday session.