



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JANUARY 3, 2007

Nigeria's top oil official, Edmund Daukoru said OPEC's supply cuts should balance the world oil market and prevent the need for members to meet before a scheduled March 15th meeting. He also stated that Nigeria planned to fully comply with its 142,000 bpd share of the two OPEC supply cuts.

Separately, traders stated that Nigeria's crude exports are expected to rebound in February as oilfields resume normal output levels following repeated attacks from militants. The increase in production would take exports slightly above a 2.04 million bpd February 1 production target. According to preliminary loading schedules, shipments for February were estimated at 2.08 million bpd, up from 1.81 million bpd the previous month. February's increase in production can mainly be attributed to an expected increase in Brass River crude production. Brass River exports were estimated at 1.7 million barrels, up 700,000 barrels from January.

The Movement for the Emancipation of the Niger Delta said it foiled a plan by Agip to free four foreign hostages who have been held since December 7. The militant group said Agip had paid middlemen to try and get its four workers out. It said the plan involved

Market Watch

The DOE said it was considering correcting its weekly oil inventory report after confirming that the large 8.1 million barrel draw in stocks it reported last week reflected a previous error. It said the magnitude of the decline was exaggerated because the previous week's report was inflated by incorrect data. The EIA's December 20 inventory report used wrong information from a company in the US Midwest. The report issued on December 28, showed Padd 2 stocks fell more than 7 million barrels.

Several OPEC Oil Ministers are scheduled to attend an international oil and natural gas conference in New Delhi on January 15-19. Saudi Arabia's Oil Minister Ali al-Naimi and Iran's Petroleum Minister Seyed Kazem Vaziri Hamaneh were among the ministers that have confirmed their availability for the Petrotech-2007 conference. Nigeria's Edmund Daukoru, Venezuela's Rafael Ramirez and Qatar's Abdullah bin Hamad al-Attiyah have also confirmed.

The NYMEX announced margin changes for various oil products contracts effective at the close of business Thursday. Margins for the first to eighth months of heating oil, New York Harbor heating oil calendar swap and heating oil financial futures contracts would fall to \$4,388 from \$5,400 for customers. Margins for the first to eighth month of the miNY heating oil futures contract would fall to \$2,194 from \$2,700 for customers. Meanwhile, margins for the first month of the RBOB contract, RBOB calendar swap and RBOB gasoline financial futures contracts would fall to \$4,388 from \$6,075 for customers. The margins for the second to eighth months would fall to \$4,050 from \$4,725 for customers. Margins for the first month of the miNY RBOB gasoline futures contract would fall to \$2,194 from \$3,038 for customers. Margins for the second through eighth months would fall to \$2,363 from \$2,700 for customers.

paying 70 million naira or \$545,000 to those supposed to be guarding the hostages. It said such plans endangered the lives of the hostages as their guards have orders to shoot them if any attempt was made to release them without authorization. The MEND said it would release its four captives in exchange for four prisoners in Nigerian jails. It added that even if its demands were met, it would only declare a temporary pause in its campaign against the oil industry. Meanwhile Agip's parent company, Eni, said it was working with the Nigerian authorities and Italy's foreign ministry to secure the release of the hostages and had no direct contact with any other parties.

Refinery News

Credit Suisse said margins for US refiners east of the Rockies fell last week on mild weather. US Northeast margins fell by \$2.79/barrel to \$4.64/barrel while margins in the Gulf Coast fell by 90 cents/barrel to \$6.39/barrel. Margins in the Midwest fell by 85 cents/barrel to \$7.94/barrel while margins in the Rockies fell by 25 cents/barrel to \$15.99/barrel. West Coast refiners however saw an increase, with margins increasing by \$1.51/barrel to \$22.96/barrel.

Alon USA said it started a maintenance turnaround at its 70,000 bpd refinery in Big Spring, Texas that could last up to a couple of weeks. During the turnaround, the refinery's crude unit would be shut for a few days and operations from the fluid catalytic cracker would be reduced. In a report filed with the Texas environmental regulators, Alon said it would also shut a delayed hydrotreater, crude unit, reformer, hydrodesulfurization unit and sulfur recovery unit by the weekend.

Enbridge stated that crude flows to the Chicago market have been cut by 300,000 bpd after a crude oil pipeline operated by Canada's Enbridge ruptured on Monday, causing an oil spill of more than 29,000 gallons of oil. The 300,000 bpd pipeline transports Canadian oil to the Chicago market and forms part of Enbridge's Lakehead system. The pipeline is expected to restart at reduced rates later on Wednesday or early on Thursday following the completion of repairs.

BP PLC won a contract from Oman Refining Co to supply gasoline to meet Oman's requirement during the shutdown of its 85,000 bpd Mina al Fahal refinery. Under a tender, BP would sell 300,000 cubic meters or 1.9 million barrels of 95 RON gasoline for delivery between January 9 and March 19 and 40,000 cubic meters of 90 RON gasoline between January 7 and March 11. Traders stated that following the shutdown and upgrade, Mina al Fahal's overall capacity would increase to 106,000 bpd.

Platts reported that there should be further development of Turkey's plan to turn the oil port of Ceyhan into a major oil hub following the opening of the 1 million bpd Baku-Tblisi-Ceyhan pipeline in July 2006. Among the development, there is a project to construct a 1.2 million bpd pipeline from Turkey's Black Sea port of Samsun to Ceyhan, bypassing the Bosphorus Straits. It reported that with the line likely to attract further volumes of crude currently piped to the Black Sea and transported to the market via the Bosphorus and the Baku-Tblisi-Ceyhan likely to attract further volumes, Ceyhan would have enough crude to supply more than one refinery even without Iraq's northern pipeline. Turkey's energy regulator has announced that it was considering issuing licenses for three refineries in the region.

The Shetland Island Council reported that Brent crude liftings from Sullom Voe fell to 239,396 tons in the week ending January 2 from 308,506 tons in the previous week.

Russia's gas oil exports out of the main Black Sea port of Novorossiisk was set at 600,000 tons in January. Gas oil shipments out of Novorossiisk were estimated at about 570,000 tons last month.

According to Reuters, former Soviet Union gas oil exports in December from Baltic and Black Sea ports increased to 2.67 million tons from 2.58 million tons the previous month. Gas oil exports from

Baltic region increased to 1.28 million tons in December from 1.2 million tons in November. Shipments from the Black Sea increased to 1.39 million tons, up from 1.38 million tons in November.

Russia's Transneft said Belarus had no right to impose any new duty on transit of Russian oil. Belarus announced earlier that it had imposed a customs duty on Russian crude oil exports across its territory, effective from January 1, amounting to \$45/ton.

South Korean refiners are expected to cut spot exports of diesel and jet fuel for January as domestic demand of heating fuel increased. Gas oil exports from South Korea are expected to fall to 600,000 tons this month from 660,000 tons in December while refiners are expected to cut jet fuel exports to 200,000 tons from 460,000 tons in December.

Production News

Woodside Petroleum Ltd shut in production at its 100,000 bpd Cossack Pioneer field and 7,000 bpd Legendre field on Tuesday evening due to a cyclone. Meanwhile, Santos said it shut production at its Mutineer-Exeter field. Woodside Petroleum Ltd and Santos Ltd said they planned to resume operations shortly after the cyclone passed the coast of Australia.

Sonagol and Total said they made a new oil discovery in Block 32 offshore Angola. They said the Salsa-1 well tested a rate of 3,686 bpd of oil.

Production from Indonesia's Cepu block is expected to start in the first quarter of 2009 rather than the fourth quarter of 2008 as a result of delays associated with land clearing. It is expected to come on stream at 25,000 bpd. The Cepu block contains about 600 million barrels of oil and 1.7 tcf of gas.

Technical levels				
		Levels	Explanation	
Trade sources stated that Saudi Arabia cut its February prices for crude bound for the US. Its Arab Light crude	CL	61.20	Previous high	
		Resistance 58.32, down \$2.73	58.50, 59.50, 60.05	Wednesday's high
		Support	58.15 56.95, 55.08	Wednesday's low Basis support line, Previous low
	HO	165.60, 166.50, 167.50	Previous highs	
		Resistance 158.81, up 6.01 cents	159.90, 162.00 to 163.00	Remaining gap (January 3)
		Support	158.00 157.00	Wednesday's low Previous low (continuation chart)
	RB	161.13, 161.50, 165.50	Previous highs	
		Resistance 154.89, up 6.74 cents	156.00, 158.25, 159.50	Wednesday's high
		Support	154.50 154.00	Wednesday's low Previous low

bound for the US was set at WTI minus \$7.50, down \$1.70 while its Arab Medium crude was set at WTI minus \$9.10, down \$1.30 and its Arab Heavy was set at WTI minus \$11.20, down 90 cents. Sources that Saudi Arabia may have cut its prices due to poor refinery demand and a lack of compliance in cuts from other OPEC members. They also reported that Arab Extra Light crude bound for Europe was set at BWAVE minus \$2.70, Arab Light was set at BWAVE minus \$6.05, down 30 cents, Arab Medium was set at BWAVE minus \$7.55, up 15 cents and Arab Heavy was set at BWAVE minus \$9.05, down 35 cents. Meanwhile, Saudi Arabia's Arab Light crude bound for Asia was set at the Oman/Dubai average plus 5 cents, its Arab Medium was set at the Oman/Dubai average minus \$2.75 and its Arab Heavy was set at the Oman/Dubai average minus \$5.50.

OPEC's news agency reported that OPEC's basket of crudes increased by 11 cents/barrel to \$56.08/barrel on Tuesday.

Market Commentary

The oil market ended the first floor trading session of the new year sharply lower as it remained pressured in light of the persistent mild weather in the Northeast. The crude market opened lower at 59.95 amid the reports that Nigeria's oil exports are expected to increase in February as oilfields resume normal production contrary to statements that Nigeria was planning to fully comply with its share of the OPEC output cuts. The market posted a high of 60.05 early in the session but quickly breached the 59.00 level. It traded to 58.65 and settled in sideways trading pattern. However the market sold off even further in a late bout of selling, which pushed the market to a low of 58.15 ahead of the close. It settled down \$2.73 at 58.32. Crude volume was light with 129,000 lots booked on the floor. However volume was much better on Globex, with 253,542 contracts booked during the open outcry session. Meanwhile, the heating oil market gapped lower from 163.00 to 161.50 as it remained pressured by the mild weather forecast. The market extended its losses to 6.82 cents as it sold off to a low of 158.00. The heating oil market later settled in a sideways trading pattern ahead of the close. It settled down 6.01 cents at 158.81. The RBOB market also settled down 6.74 cents at 154.89 after the market, which posted a high of 159.50 early in the session, sold off to a low of 154.50 ahead of the close. Volumes in the product markets were light with 36,329 lots booked in the heating oil market and 26,811 lots booked in the RBOB market on Globex.

NYMEX crude oil options today saw calls out pace puts at a nearly two to one rate for the second day in a row. The most active strike on the day was the February \$62.00 call which traded over 10,000 lots between 50 and 28 cents.

The oil market on Thursday is seen retracing some of its sharp losses early in the session ahead of the release of the weekly petroleum stock reports. The market will seek further direction from the weekly petroleum stock reports which are expected to show draws in crude stocks of about 1 million barrels, builds in distillate stocks of about 1 million barrels and builds in gasoline stocks of 1.5 million barrels on the week. The DOE may however show a build in stocks as it revises its previous report, which showed the large draw in Padd 2 stocks. The crude market is seen finding support at 58.15 followed by more distant support at 56.95 and 55.08. Meanwhile resistance is seen at 58.50, 59.50 and its high of 60.05. More distant resistance is seen at its previous high of 61.20.