



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR NOVEMBER 29, 2006

A Gulf source stated that Saudi Arabia would not use its oil power a political tool following a report stating that Saudi Arabia could move to lower oil prices to apply pressure on Iran over Iraq. The Washington Post reported that a security adviser to the Saudi government, Nawaf Obaid stated that Saudi Arabia would intervene to prevent Iranian-backed Shi'ite militias from massacring Iraqi Sunni Muslims once the US starts pulling out of Iraq. He said one of the options being considered by the Saudi government was to flood the oil market to crash prices and limit Iran's ability to finance Shi'ite militias in Iraq. An official Arab source however sought to play down the comments.

Saudi Arabia's Oil Minister Ali al-Naimi said Saudi Arabia wanted fair and stable oil prices. However he stated that it was not prepared to act alone to maintain market balance. He said Saudi Arabia was

Market Watch

The Washington Times reported that Shi'ite and Sunni groups were massing their militias in expectation of major confrontations while President George W. Bush meets Iraq's Prime Minister Nouri al-Maliki. President Bush's meeting is part of a wider attempt to involve Iraq's neighbors in efforts to end Iraq's sectarian violence before it spills over into a larger regional conflict. However Iraqis on both sides of the country's sectarian divide report signs that the conflict would soon evolve into battles between large armed groups. A secular Shi'ite said Shi'ite militias were massing in preparation for a large offensive against Sunnis in Baghdad. Meanwhile, Sunnis were attempting to form alliances among militias for an offensive against the Shi'ites.

Russia's Gazprom and Rosneft have signed a massive partnership deal that could squeeze foreign companies out of the Russian energy market. The companies signed an agreement on strategic cooperation for joint work in oil, gas and electricity production as well as combined bids on energy contracts. The deal would remain in place until 2015 after which it could be renewed in five year periods.

Credit Suisse Group lowered its forecast for the average price of WTI oil between 2007 and 2010 by 3.8% due to lower Chinese demand. It estimated the average price for WTI over the next few years would be \$62.50/barrel, down from an earlier estimate of \$65/barrel. It forecast that oil prices would fall to \$50/barrel by the start of 2011.

The NYMEX announced that effective December 4, its Heating Oil, Unleaded Gasoline, and Gasoline Blendstock futures contracts would open at 10 am, similar to the existing time for its Crude Oil contract. The contracts have been opening at 10:05 am.

According to a survey, Venezuela's President Hugo Chavez has 57% support heading into Sunday's election, a 19 point lead over his rival. His challenger Manuel Rosales' 38% support showed he gained slightly since a survey was published earlier this month.

DOE Stocks

Crude – down 300,000 barrels
Distillate – down 1 million barrels
Gasoline – down 600,000 barrels
Refinery runs – up 1.15%, at 88.1%

producing an average of 9 million bpd of crude oil. Under the OPEC agreement, Saudi Arabia has to cut its output by 380,000 bpd from 9.08 million bpd produced in October. Meanwhile, a senior OPEC delegate said Saudi Arabia's oil production in November would be below October's 9 million bpd production level. However he stated that it was too early to gauge its output this month.

Kuwait's Energy Minister stated that Kuwait did not believe OPEC should cut its production further in December if prices hold near \$61/barrel. However he stated that OPEC would need to cut its production if prices declined sharply. Meanwhile, Algeria's Oil Minister Chakib Khelil reiterated that OPEC may need to make further cuts in its production to stabilize prices. Separately, the head of Libya's oil policy, Shokri Ghanem said Libya cut its oil production by 72,000 bpd, the amount it agreed to during OPEC's October meeting. He said he was comfortable with crude prices at around \$61/barrel.

Iraqi officials said the present state of Iraq's oil sector is bleak and its future looks worse. They stated that another damaging attack this week which cut Kirkuk production to 100,000 bpd from 300,000 bpd, the prospect of British troops handing over the city of Basra and virtual civil war have all but crushed their hopes of keeping exports flowing to world markets. An oil law designed to unify the country and lure foreign investment is unlikely to arrive by the end of the year. Arab Sunnis fear autonomous deals by Shi'ites in the south and Kurds in the north would cut them out of Iraq's oil wealth. They along with the Kurds and Turkmen have been disputing the status of Kirkuk and its oilfield. A December 2007 referendum is expected to decide whether Kirkuk city and the surrounding area should be controlled by the Kurdistan regional government. A modest amount of foreign investment could increase its production towards 4 million bpd. However multinationals have stated that they would not act without a legal framework and peace restored.

Refinery News

Ship traffic through the Houston Ship Channel was halted on Wednesday due to fog.

Deer Park Refining is expected to finish an overhaul of a 67,000 bpd catalytic cracking unit at its 340,000 bpd refinery in Deer Park, Texas this week. The restart of the catcracker is expected to begin early next week. The refinery began restarting an alkylation unit early on Wednesday.

BP Plc restarted a unit at its 260,000 bpd refinery in Carson, California on Tuesday. It shut several units at the refinery in early October for overhaul.

Neste Oil said it completed repairs of its fluid catalytic cracking unit at its main Porvoo refinery about half a week ahead of schedule. It said it lost about 40,000 tons of gasoline production and some olefin output.

The Shetland Island Council reported that Brent crude liftings fell to 263,467 tons in the week ending November 28 from 390,675 tons in the previous week.

Turkey's Bosphorus Strait reopened to northbound traffic on Wednesday after authorities closed the waterway in both directions following a crash on Tuesday. Delays were running at an average of 10 days for a round trip journey. A total of 12 tankers were waiting to navigate the Bosphorus in both directions.

NYMEX Petroleum Options Most Active Strikes for November 29, 2006								
Symbol	Month	Year	Call/Put	Strike	Exp Date	Settle	Volume	IV
LO	4	7 P	55	03/15/2007	0.77	3,200	31.26	
LO	6	8 P	68.5	05/15/2008	6.89	3,000	25.00	
LO	6	8 P	63	05/15/2008	4.82	3,000	26.13	
LO	4	7 C	63	03/15/2007	5.14	2,475	28.33	
LO	3	7 C	65	02/14/2007	3.12	2,431	27.84	
LO	3	7 C	70	02/14/2007	1.38	2,346	27.66	
LO	4	7 C	70	03/15/2007	2.09	2,155	27.55	
LO	2	7 C	75	01/17/2007	0.19	2,148	28.56	
LO	3	7 C	62	02/14/2007	4.78	2,000	28.61	
LO	5	7 P	55	04/17/2007	1.01	2,000	31.10	
LO	2	7 P	60	01/17/2007	1.14	1,901	29.12	
LO	1	7 C	65	12/14/2006	0.52	1,880	28.18	
LO	12	7 P	50	11/13/2007	1.32	1,800	31.81	
LO	12	8 P	55	11/17/2008	3.02	1,300	26.08	
LO	6	7 C	67	05/17/2007	4.64	1,250	27.51	
LO	1	7 C	62	12/14/2006	1.66	1,241	28.29	
LO	5	7 C	65	04/17/2007	4.91	1,201	27.86	
LO	12	7 P	52	11/13/2007	1.62	1,200	31.19	
LO	12	7 P	68	11/13/2007	6.19	1,150	26.72	
LO	3	7 C	80	02/14/2007	0.23	1,142	29.17	
LO	6	7 C	65	05/17/2007	5.65	1,133	27.96	
LO	1	7 C	61	12/14/2006	2.26	1,098	28.44	
LO	6	7 P	55	05/17/2007	1.22	1,050	31.13	
LO	5	7 C	63	04/17/2007	6.05	1,000	28.48	
LO	1	7 P	59	12/14/2006	0.32	981	29.19	
LO	6	7 P	62	05/17/2007	2.91	900	28.74	
LO	4	7 C	68	03/15/2007	2.74	850	27.53	
LO	4	7 C	67	03/15/2007	3.13	800	27.60	
LO	4	7 C	74	03/15/2007	1.2	800	27.96	
LO	6	7 P	66	05/17/2007	4.48	800	27.65	
OB	1	7 P	1.6	12/26/2006	0.0239	201	34.15	
OB	2	7 C	1.8	01/26/2007	0.0582	200	34.22	
OB	1	7 C	1.75	12/26/2006	0.0411	140	34.15	
OB	1	7 C	1.7	12/26/2006	0.0609	90	33.68	
OB	1	7 C	1.64	12/26/2006	0.0946	90	34.03	
OB	1	7 P	1.44	12/26/2006	0.0025	65	35.07	
OH	1	7 C	1.77	12/26/2006	0.0981	500	30.95	
OH	2	7 C	1.9	01/26/2007	0.076	500	31.80	
OH	2	7 P	1.75	01/26/2007	0.0445	278	31.38	
OH	1	7 C	1.9	12/26/2006	0.0359	169	31.22	
OH	2	7 C	2.05	01/26/2007	0.0348	154	33.26	
OH	2	7 C	1.92	01/26/2007	0.0688	150	32.03	
OH	2	7 C	1.86	01/26/2007	0.0924	150	31.42	
OH	3	7 C	1.9	02/23/2007	0.0962	127	30.72	
OH	1	7 C	1.8	12/26/2006	0.0796	104	30.84	
OH	2	7 P	1.85	01/26/2007	0.0861	85	31.45	
OH	1	7 P	1.8	12/26/2006	0.0444	51	30.76	

elect later on Wednesday.

Nippon Oil Corp said it planned to process 5.3 million kiloliters or 1.08 million bpd of crude oil in December, up 5% on the year. It is estimated to process 4.5 million kl or 943,000 bpd in November.

The Petroleum Association of Japan reported that kerosene stocks in Japan fell by 0.5% to 5.09 million kiloliters or 32.02 million barrels in the week ending November 25. Kerosene stocks fell by 150,000 barrels on the week. It also reported that gasoline stocks increased by 40,000 barrels to 13.42 million barrels while crude stocks fell by 3.8 million barrels on the week to 110.41 million barrels.

The Petroleum Association of Japan showed that refiners operated at an average of 86% of their 4.79 million bpd capacity during the week.

Ecuador's leftist Rafael Correa, who won Ecuador's presidential run-off vote, said he would start sending Ecuadorian oil to refine in Venezuela. He has also promised to review foreign oil contracts to ensure the state receives a larger share of volume from production. Electoral authorities are expected to name him president

Production News

PIRA reported that OPEC's crude exports fell by 1.28 million bpd to 23.43 million bpd in the four weeks ending November 19. It was down 1.7 million bpd from the recent peak in mid October.

Traders stated that Nigeria's oil exports are expected to fall in January due to the militant attacks on its oil infrastructure. Nigeria's oil shipments for January were estimated at 1.78 million bpd, down about 15% from the previous month's 2.09 million bpd.

Brazil's National Petroleum Agency said the annual auction of oil and gas exploration and production licenses, suspended by a judge's injunction on Tuesday, was cancelled. However an official stated that the licenses sold before the suspension of the sale were valid. A judge on Tuesday issued the injunction over a new auction rule that limited the number of blocks one company can purchase in a determined sector.

An official stated that China's Sinopec Group was near a deal to develop Iran's Yadavaran oilfield. He said both sides have agreed on the technical development plans. Sinopec Group and National Iranian Oil Co would each take a 50% stake in the project with an estimated reserve of 3 billion barrels. Yadavaran is expected to produce 300,000 bpd, about the same amount Iran now exports to China.

India's government cut retail prices of petrol and diesel by 4.25% and 3% respectively on Wednesday, citing lower oil prices. Indian Oil Corp said its revenues would be marginally affected by the cut. The cut could increase domestic oil demand, which is up 2.4% so far this financial year led by 6.3% growth in diesel demand.

OPEC's news agency reported that OPEC's basket of crudes increased to \$56.48/barrel on Tuesday from \$55.76/barrel on Monday.

Market Commentary

The oil market opened 26 cents higher at 61.25 and posted a low of 61.20 as it awaited the release of the weekly petroleum stock reports. The market quickly bounced off its low and rallied to 62.10 in light of the supportive DOE report, which showed unexpected draws in product stocks and a large draw in total petroleum stocks of 7.5 million barrels. The market traded sideways before further buying pushed the market to 62.35. It later breached that level and rallied to a high of 62.50 on the close. It settled up \$1.47 at 62.46. The market, which was well supported by the stock reports, shrugged off a Washington Post report stating the Saudi Arabia was considering flooding the market with oil to apply pressure on Iran over Iraq. Volume in the crude market was light with 147,000 lots booked on the day. Crude volume on Globex was better with over 210,000 lots booked during the open outcry session. The heating oil market gapped higher from 173.20 to 174.25 and quickly rallied in light of the DOE report showing an unexpected draw in distillate stocks of 1 million barrels. It traded to 177.00, where it held some resistance, before it extended its gains to over 6.8 cents as it posted a high of 179.70 ahead of the close. It settled up 6.7 cents at 179.53. The RBOB market was also well supported and settled up 7.13 cents at 170.84. The market gapped higher from 164.50 to 165.75 and extended its gains to over 7.2 cents as it traded to a high of 171.00 on the close. The market rallied in light of the unexpected gasoline stock draw of 600,000 barrels reported by the DOE and the 2.4 million barrel draw reported by the API. Volumes in the product markets were better with 40,000 lots booked in the heating oil market and 25,000 lots booked in the RBOB market.

The oil market, which is likely to retrace some of its sharp gains early in the session, is seen trending higher on the day as its stochastics still have room the upside. The market on Thursday will also be driven by the expiration of the December product contracts. The market is seen testing its high of 62.50 followed by 62.60. More distant resistance is seen at its previous high of 63.20. Meanwhile

support is seen at 61.55, 61.20 followed by 60.35. More distant support is seen at 59.55 followed by 58.40 and 58.00.

Levels			Explanation
CL 62.46, up \$1.47	Resistance 62.60, 63.20	62.50	Previous highs Wednesday's high
	Support 61.55, 61.20	60.35, 59.55, 58.40, 58.00	Wednesday's low Previous lows
HO 179.53, up 6.7 cents	Resistance 180.20, 181.80, 184.40	179.70	Previous highs Wednesday's high
	Support 178.00, 176.00, 174.25 to 173.20	171.00, 168.50	Opening gap (November 29th) Previous lows
RB 170.84, up 7.13 cents	Resistance 171.28, 173.14, 174.60	171.00	38% retracement (215 and 144.25), Previous highs Wednesday's high
	Support 168.00, 165.75 to 164.50	160.50, 158.50	Opening gap (November 29th) Previous lows