



## ***ENERGY RISK MANAGEMENT***

Howard Rennell, Pat Shigueta &  
Zachariah Yurch

**(212) 624-1132 (888) 885-6100**

**www.e-windham.com**

---

### **ENERGY MARKET REPORT FOR JANUARY 24, 2007**

---

According to an official at the Iranian Oil Co, Iran has implemented its share of OPEC's October output cuts and added that it would comply with OPEC's planned February cuts. Iran's share of the OPEC cuts would total 249,000 bpd. The official said Iran would cut its long term sales contracts and sales on the spot market.

Separately, Iran's governor to OPEC, Hossein Kazempour Ardebili said the oil market was concerned over supply and demand issues and was again sensitive to basis fundamentals. He said oil prices should increase when OPEC's second output cut of 500,000 bpd is implemented on February 1.

Kuwait's Oil Minister Sheik Ali al-Jarrah al-Sabah said he did not expect OPEC to cut supply further at its next scheduled meeting on March 15 because its already

agreed to cuts were enough to balance the market. He also stated that \$55/barrel was a reasonable price for OPEC's basket, agreeing with OPEC's President and UAE Oil Minister Mohammed al-Hamli.

#### **Market Watch**

Fimat stated the Asian oil consumption may nearly surpass North American levels in 2007. Asian demand has been one of the reasons for oil's climb to near \$80/barrel and a growing middle class means consumption for transport fuels is expected to keep rising. It also stated that Asia's increasing demand would increase its demand for hedging and paper assets. Asia's presence in energy future markets has not match the growth of its physical demand, partly due to Chinese foreign exchange constraints. However that may soon change as China's economic reforms gain momentum.

Norway's DNO is expected to gain a license to export oil from Iraq despite an apparent dispute over Iraq's oil sharing rules. DNO is expected to start production in the Kurdish controlled north in the first quarter of 2007.

Goldman Sachs said profit margins for producing ethanol would improve in the coming months due to an expected increase in gasoline prices and an expected decline in corn and natural gas prices. It said the price risk has shifted to the upside, particularly for the May and early summer contracts when gasoline demand is expected to increase seasonally. It added that the prices of natural gas used in crop growing, are likely to move lower, averaging \$6/mmbtu in the second quarter of 2007 due to high storage levels and a generally mild winter that has undercut demand. Corn prices are also expected to decline.

Venezuela's PDVSA has issued two tenders to sell a total of 2.15 million barrels of 3% sulfur fuel oil in February. Separately, it stated that it sold a late January jet fuel cargo to Morgan Stanley for delivery to the US Atlantic Coast.

#### **Refinery News**

**DOE Stocks**

- Crude** – up 700,000 barrels
- Distillate** – up 700,000 barrels
- Gasoline** – up 4 million barrels
- Refinery runs** – down 0.57%, at 87.4%

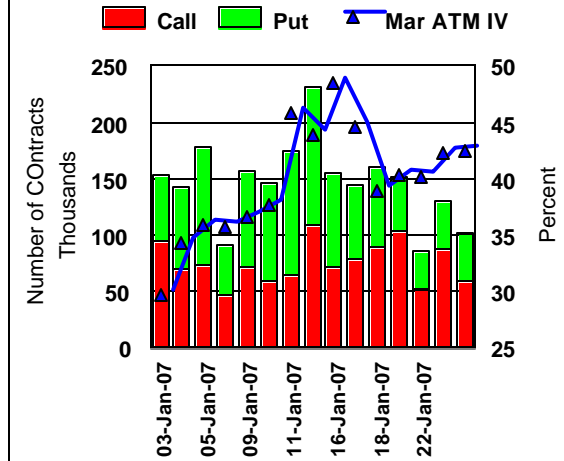
PDVSA is scheduled to restart its fluid catalytic cracking unit at its El Palito refinery on February 12. An official said the closure of the catcracker led to an unusually high level of sales of vacuum gas oil. Separately, PDVSA said three people were hurt in an accident at its 200,000 bpd Puerto La Cruz refinery during an operation to restart one of its units.

Valero reported a problem with a unit at its 90,000 bpd refinery in Houston, Texas which caused it to reduce charge rates in order to stem flaring. It said a slide valve on the Complex I regenerator closed unexpectedly, resulting in a shutdown of the regenerator.

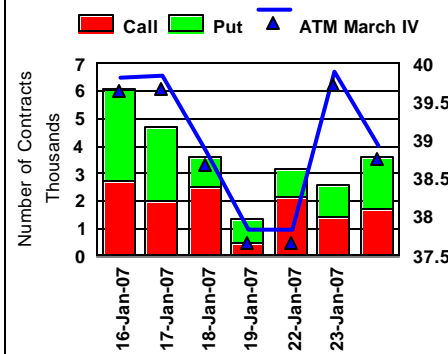
Suncor Energy Inc said its oil sands production from its Northern Alberta facility would fall by about 50,000 bpd due to a fire. A Suncor spokesman said output at the facility was cut to 210,000 bpd while it completed repairs at a diluent unit at one of its upgraders.

Shell Canada Ltd said its 130,000 bpd Montreal East refinery is scheduled to undergo turnaround for a month in the second quarter. It said the maintenance would affect several of the facility's process units.

**NYMEX WTI Option Volume Vs March ATM IV**



**NYMEX Heat Options Daily Traded Volume Vs ATM IV**

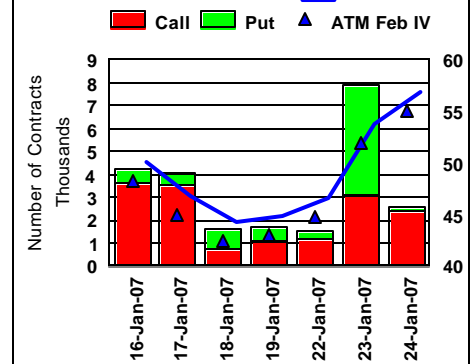


India's refinery runs in December increased by 6.1% on the year to 12.27 million tons or 2.9 million bpd.

The Shetland Island Council reported that Brent crude liftings increased to 338,341 tons in the week ending January 23 from 157,453 tons during the previous week.

Russia's Transneft said pipeline oil flows to Russia's main Baltic Sea port of Primorsk have been below target for several days due to power shortages. It said it may remain capped for some time but added that it would attempt to catch up with its pumping schedule by the end of the month.

**NYMEX RBOB Options Daily Traded Volume Vs ATM IV**



The Caspian Pipeline Consortium said its crude exports increased by 2% on the year in 2006 to 666,318 bpd.

The Petroleum Association of Japan reported that kerosene stocks fell by 1.64% on the week to 4.41 million kiloliters or 27.76 million barrels in the week ending January 20. It reported that crude stocks increased by 310,000 barrels to 105.34 million barrels while gasoline stocks increased by 380,000 barrels to 14.28 million barrels on the week. It reported that Japanese refiners ran their refineries at an average 87.8% of total capacity of 4.83 million bpd.

**NYMEX Petroleum Options Most Active Strikes for January 24, 2007**

| Symbol | Month | Year | Call/Put | Strike | Exp Date   | Settle | Volume | IV    |
|--------|-------|------|----------|--------|------------|--------|--------|-------|
| LO     | 6     | 7    | P        | 50     | 05/17/2007 | 1.54   | 4,800  | 36.41 |
| LO     | 3     | 7    | C        | 60     | 02/14/2007 | 0.71   | 3,600  | 42.30 |
| LO     | 12    | 7    | C        | 100    | 11/13/2007 | 0.24   | 3,425  | 30.56 |
| LO     | 12    | 7    | C        | 90     | 11/13/2007 | 0.48   | 2,650  | 29.32 |
| LO     | 4     | 7    | C        | 62     | 03/15/2007 | 1.2    | 2,640  | 38.53 |
| LO     | 3     | 7    | C        | 55     | 02/14/2007 | 2.43   | 2,410  | 42.65 |
| LO     | 4     | 7    | P        | 48     | 03/15/2007 | 0.6    | 2,039  | 40.86 |
| LO     | 3     | 7    | P        | 52     | 02/14/2007 | 0.94   | 2,003  | 43.58 |
| LO     | 4     | 7    | P        | 55     | 03/15/2007 | 2.59   | 1,958  | 38.60 |
| LO     | 3     | 7    | C        | 54.5   | 02/14/2007 | 2.7    | 1,947  | 42.84 |
| LO     | 5     | 7    | C        | 64     | 04/17/2007 | 1.49   | 1,825  | 36.18 |
| LO     | 3     | 7    | C        | 56     | 02/14/2007 | 1.95   | 1,802  | 42.43 |
| LO     | 3     | 7    | P        | 50     | 02/14/2007 | 0.5    | 1,598  | 44.31 |
| LO     | 6     | 7    | C        | 68     | 05/17/2007 | 1.24   | 1,502  | 34.65 |
| LO     | 6     | 7    | C        | 78     | 05/17/2007 | 0.34   | 1,501  | 35.51 |
| LO     | 12    | 7    | P        | 40     | 11/13/2007 | 0.54   | 1,501  | 33.25 |
| LO     | 9     | 7    | C        | 75     | 08/16/2007 | 1.03   | 1,500  | 30.05 |
| LO     | 3     | 7    | P        | 54.5   | 02/14/2007 | 1.83   | 1,438  | 42.76 |
| LO     | 12    | 7    | P        | 55     | 11/13/2007 | 3.69   | 1,225  | 29.91 |
| LO     | 12    | 7    | P        | 60     | 11/13/2007 | 5.82   | 1,210  | 29.10 |
| LO     | 6     | 7    | P        | 49     | 05/17/2007 | 1.32   | 1,200  | 36.84 |
| LO     | 3     | 7    | C        | 58     | 02/14/2007 | 1.21   | 1,159  | 42.33 |
| LO     | 3     | 7    | C        | 62     | 02/14/2007 | 0.41   | 1,157  | 42.83 |
| LO     | 12    | 7    | C        | 59.5   | 11/13/2007 | 6.1    | 1,095  | 29.25 |
| LO     | 12    | 7    | P        | 59.5   | 11/13/2007 | 5.58   | 1,095  | 29.18 |
| LO     | 3     | 7    | C        | 76     | 02/14/2007 | 0.01   | 1,034  | 50.03 |
| LO     | 4     | 7    | C        | 70     | 03/15/2007 | 0.28   | 1,008  | 40.13 |
| OB     | 9     | 7    | C        | 2.15   | 08/28/2007 | 0.0456 | 754    | 33.99 |
| OB     | 9     | 7    | C        | 1.76   | 08/28/2007 | 0.1255 | 750    | 31.13 |
| OB     | 3     | 7    | C        | 1.6    | 02/23/2007 | 0.0339 | 100    | 42.76 |
| OH     | 3     | 7    | C        | 1.7    | 02/23/2007 | 0.0339 | 412    | 39.72 |
| OH     | 2     | 7    | P        | 1.5    | 01/26/2007 | 0.0023 | 335    | 53.53 |
| OH     | 2     | 7    | P        | 1.55   | 01/26/2007 | 0.0111 | 307    | 52.76 |
| OH     | 4     | 7    | C        | 1.58   | 03/27/2007 | 0.1064 | 200    | 36.61 |
| OH     | 4     | 7    | P        | 1.58   | 03/27/2007 | 0.0833 | 200    | 36.57 |
| OH     | 4     | 7    | C        | 1.6    | 03/27/2007 | 0.0964 | 177    | 36.53 |
| OH     | 3     | 7    | P        | 1.55   | 02/23/2007 | 0.049  | 141    | 38.95 |
| OH     | 3     | 7    | P        | 1.48   | 02/23/2007 | 0.0258 | 125    | 39.30 |
| OH     | 3     | 7    | P        | 1.52   | 02/23/2007 | 0.0378 | 125    | 39.11 |
| OH     | 4     | 7    | P        | 1.57   | 03/27/2007 | 0.0787 | 110    | 36.68 |
| OH     | 4     | 7    | C        | 1.57   | 03/27/2007 | 0.1117 | 110    | 36.72 |
| OH     | 3     | 7    | C        | 1.6    | 02/23/2007 | 0.0685 | 101    | 38.76 |
| OH     | 3     | 7    | C        | 1.64   | 02/23/2007 | 0.0522 | 100    | 39.07 |
| OH     | 3     | 7    | C        | 1.71   | 02/23/2007 | 0.0314 | 100    | 39.80 |
| OH     | 3     | 7    | C        | 1.61   | 02/23/2007 | 0.0641 | 100    | 38.84 |
| OH     | 3     | 7    | P        | 1.46   | 02/23/2007 | 0.0209 | 100    | 39.38 |

**Production News**

ConocoPhillips said it received instructions to cut production at its operations in Venezuela and Libya due to cuts mandated by OPEC. It said the cuts would reduce first quarter production by 30,000 bpd and added that some of the cuts were already in place.

Nigeria's ThisDay newspaper reported that Nigeria was importing all of its oil because its refineries were not operating. NNPC chief Funsho Kupolukun said Nigeria's Warri, Kaduna and Port Harcourt refinery were closed. The 125,000 bpd Warri refinery and the 110,000 bpd Kaduna refinery were shut last February after militants blew up the main feeder pipeline. Its 210,000 bpd Port Harcourt refinery was closed last month due to technical problems.

The EIA reported that Angola's crude oil production increased by 12.9% in 2006 to 1.412 million bpd. It said Angola's production is expected to reach 2 million bpd by 2008, when new deepwater production sites are expected to come online. Angola's oil consumption increased to 62,000 bpd from 58,000 bpd a year ago, allowing for exports of 1.35 million bpd. Separately, traders stated that a move by Angola to increase its oil production is unlikely to

have a long term impact on OPEC's production quotas or the West African cash crude market. Traders said Angola's Dalia oilfield is scheduled to load six 950,000 barrel cargoes in March. The Dalia oilfield is expected to reach its maximum output of 240,000 bpd by mid-2007.

Ukraine's Ukrtatnafta increased its throughput by 5.3% to 6.311 million tons of oil in 2006. In December, its crude throughput fell to 552,800 tons compared with 608,400 tons in November.

OPEC's news agency reported that OPEC's basket of crudes fell to \$49.52/barrel on Tuesday, down from Monday's \$49.63/barrel level.

### **Market Commentary**

The oil market opened 34 cents lower at 54.70 as it retraced some of Tuesday's sharp gains ahead of the release of the weekly petroleum stock reports. The crude market sold off sharply to its low of 53.70 in light of the builds reported by the DOE. The complex was pressured by the unexpected build in distillate stocks and the larger than expected build in gasoline stocks. However the crude market bounced off its low and retraced its losses amid some supportive news. ConocoPhillips stated that it was told to cut back its production in Venezuela and Libya, due to cuts mandated by OPEC. The oil market traded above the 55.00 level and held some resistance at 55.25 before it rallied to a high of 55.45 ahead of the close. It settled up 33 cents at 55.37. Volume in the crude market was better with 256,839 lots traded on Globex during the open outcry session. The heating oil market also opened 93 points lower at 156.70 and sold off sharply following the release of the DOE, which reported an unexpected build in distillate stocks of 700,000 barrels. However the market bounced off its low and traded mostly sideways before further buying ahead of the close pushed the market to a high of 158.70. It settled up 76 points higher at 158.39 amid the strength in the oil market. The RBOB market also settled up 1.43 cents at 146.16 after the market rallied to a high of 146.40 on the close. The market sold off earlier in the session to a low of 141.00 in light of the larger than expected build in gasoline stocks of 4 million barrels. Volumes in the product markets were also better today with 46,568 lots

booked in the heating oil and 31,958 lots booked in the RBOB market.

The oil market, which rallied on the reports that OPEC is

| Technical levels |                       |                        |   |
|------------------|-----------------------|------------------------|---|
|                  |                       | Levels                 | Explanation   |
| <b>CL</b>        | <b>Resistance</b>     | 55.95, 56.47, 57.05    | Previous high, 38% retracement (65.00 and 51.20), Previous high |
|                  | 55.37, up 33 cents    | 55.45                  |   |
|                  | <b>Support</b>        | 55.00, 54.40, 53.70    | Wednesday's low   |
|                  |                       | 53.05, 52.15           | Previous lows   |
| <b>HO</b>        | <b>Resistance</b>     | 159.50, 162.00         | Previous highs  |
|                  | 158.39, up 76 points  | 158.70                 | Wednesday's high  |
|                  | <b>Support</b>        | 156.00, 154.20         | Wednesday's low   |
|                  |                       | 153.00, 149.50, 149.00 | Previous lows   |
| <b>RB</b>        | <b>Resistance</b>     | 149.00, 149.95         | Previous highs  |
|                  | 146.16, up 1.43 cents | 146.40                 | Wednesday's high  |
|                  | <b>Support</b>        | 144.00, 141.00         | Wednesday's low   |
|                  |                       | 140.10, 137.10         | Previous lows   |

complying with its output cuts, is seen retracing some of today's sharp gains early in the session before it continues to post a correction and trades higher. Resistance is seen at 55.45 followed by 55.95, 56.47 and 57.05. Meanwhile, support is seen at 55.00, 54.40 and its low of 53.70. More distant support is seen at 53.05 and 52.15.