



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR JANUARY 2, 2007**

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Iran's President Mahmoud Ahmadinejad said Iran would proceed with its nuclear work and added that the UN resolution imposing sanctions against Iran was invalid. He said some world powers were bullying Iran over its nuclear program. He stated that Iran's nuclear program was not a threat to Middle East stability. Meanwhile, the country's government spokesman said that Iran may pull out of the Non-Proliferation Treaty.

The EIA reported that the US average retail price of diesel fell by 1.6 cents/gallon to \$2.58/gallon in the week ending January 1<sup>st</sup>. It also reported that the US average retail price of gasoline fell by 0.7 cents/gallon to \$2.334/gallon on the week.

#### **Refinery News**

Valero Energy Corp said a fire at its Delaware City, Delaware refinery over the weekend had no significant impact on its operations.

The US Coast Guard said Plains All American's High Island Pipeline was completely secured over the weekend after favorable weather conditions allowed divers to return to the site. The rupture on the pipeline was secured with inflatable buoy as a temporary measure to stop the flow of oil. Plans to permanently repair the pipeline were being developed. Investigations were still underway to determine the cause of the rupture.

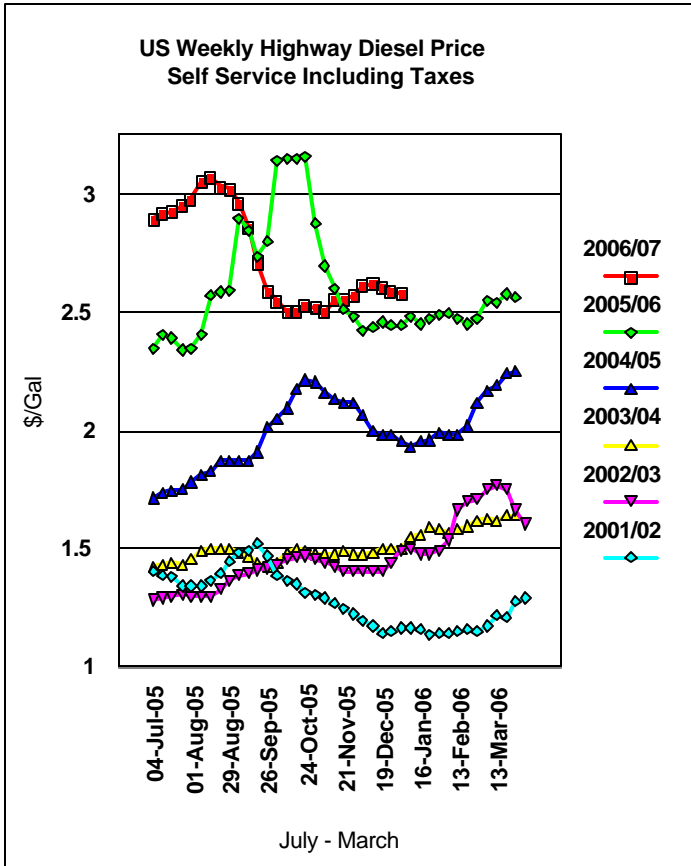
A shipping source stated that Iraq's Kirkuk oil stocks at the Turkish terminal of Ceyhan stood at 3.8 million barrels. The shipping agent could not confirm whether production had restarted since pumping was halted last Wednesday.

Russia's main Black Sea port of Novorossiisk was closed on Tuesday due to bad weather.

#### **Market Watch**

The National Weather Service said US heating demand is expected to be 30% below normal this week. In the week ending January 6, demand for heating oil is expected to be about 33% lower than normal, while heating demand for natural gas would be about 29% below normal.

Analysts said the extent to which OPEC complies with its output restraint would determine whether oil prices would remain above \$60/barrel this year. Deutsche Bank stated that with oil demand slowing in the face of sluggish world economic growth, it is increasingly likely that additional OPEC production cuts would be required during 2007 to avert a further decline in prices. It expects oil prices to average \$62/barrel this year, down from an average of more than \$66/barrel in 2006. Separately, Goldman Sachs has estimated that oil prices would average \$70 plus this year while most analysts expect flat to lower prices.



**Production News**

According to Russia's Energy and Industry Ministry, Russia increased its production by 2.2% in 2006 to 480.5 million tons or 9.6 million bpd. Oil exports by pipelines from Russia outside the Commonwealth of Independent States increased by 1.7% to 221.7 million tons. The increase in Russia's oil production was the smallest annual increase since 1999 after companies cut investment as the government was increasing controls on the industry.

OPEC's news agency reported that OPEC's basket of crudes fell by 12 cents/barrel to \$56.00/barrel on Friday. It also reported that OPEC's basket of crudes fell by \$1.51/barrel to \$56.50/barrel in the week ending December 29.

**Market Commentary**

The oil market traded lightly on Globex as open outcry trading was sideline due to a national day of remembrance for President Gerald Ford. The market, which was trading above the 61.00 level early in the morning,

breached that level and traded to a low of 60.41 on Globex. The crude market later retraced its losses and settled in a sideways trading pattern as it held resistance at 61.05. The market's gains were limited by the prospect of continued mild weather in the Northeast. Meanwhile, the heating oil market which was trading above the 165.00 level early in the session, sold off to a low of 162.76 as it continued to trend lower on the weather forecasts. The National Weather Service reported that heating demand would be about 30% lower in the week ending January 6. The market however retraced some of its losses and settled in a sideways trading pattern after it traded to 164.60 in afternoon trading. Similarly, the RBOB market also traded off its highs seen early in the morning, when it was trading above 162.00. The market extended its losses and traded to a low of 160.43. The market later retraced its losses and traded above 161.70 before it settled in a sideways trading pattern during the remainder of the Globex session.

The oil market is seen remaining pressured as trading floor trading resumes on Wednesday. However the

Technical levels			
	Levels	Explanation	
CL	Resistance	62.60, 62.95	Previous highs
		61.55	Tuesday's high
	Support	61.05	Friday's settlement
		60.41	Tuesday's low
HO	Resistance	59.90, 59.50	Previous lows
		166.50, 167.50	Previous highs
	Resistance	166.10	Tuesday's high
	Support	164.82	Friday's settlement
RB	Support	164.00, 163.25, 162.76	Tuesday's low
		158.60	Previous low (continuation chart)
	Resistance	165.50, 167.00	Previous highs
	Support	161.63	Friday's settlement
	163.00	Tuesday's high	
	Support	160.43	Tuesday's low
		159.00, 158.00, 157.50	Previous lows

market will be concerned over the Iranian comments that Iran would halt its cooperation with the UN's IAEA after the UN Security Council agreed on a resolution imposing sanctions on Iran. There is also concern over continuing violence in Iraq following the execution of Saddam Hussein. The market is seen finding support at 60.41 followed by 59.90 and 59.50. Meanwhile resistance is seen at 61.55, 62.60 and 62.95.