



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR JANUARY 5, 2007**

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Nigeria's top oil official, Edmund Daukoru said OPEC was concerned by the fall in oil prices. However he said OPEC should wait to see the impact of supply cuts already agreed before making any further reduction. Meanwhile, Libya's Oil Minister Shokri Ghanem said oil output cuts agreed last month by OPEC have not balanced the market and added that the group may need to meet again in February or March.

According to a Reuters survey, the ten OPEC members increased their production by 60,000 bpd to 26.96 million bpd in December. Their output in December was 680,000 bpd less than in October, when they pledged to cut production by 1.2 million bpd starting November 1. Total OPEC production increased to 28.75 million bpd in December from 28.71 million bpd in November. It reported that Saudi Arabia's production was unchanged at 8.75 million bpd. However Nigeria increased its production by 40,000 bpd to 2.29 million bpd while Venezuela also increased its production by 20,000 bpd to 2.49 million bpd. Meanwhile, Iraq cut its output by 20,000 bpd to 1.79 million bpd in December.

#### **Refinery News**

#### **Market Watch**

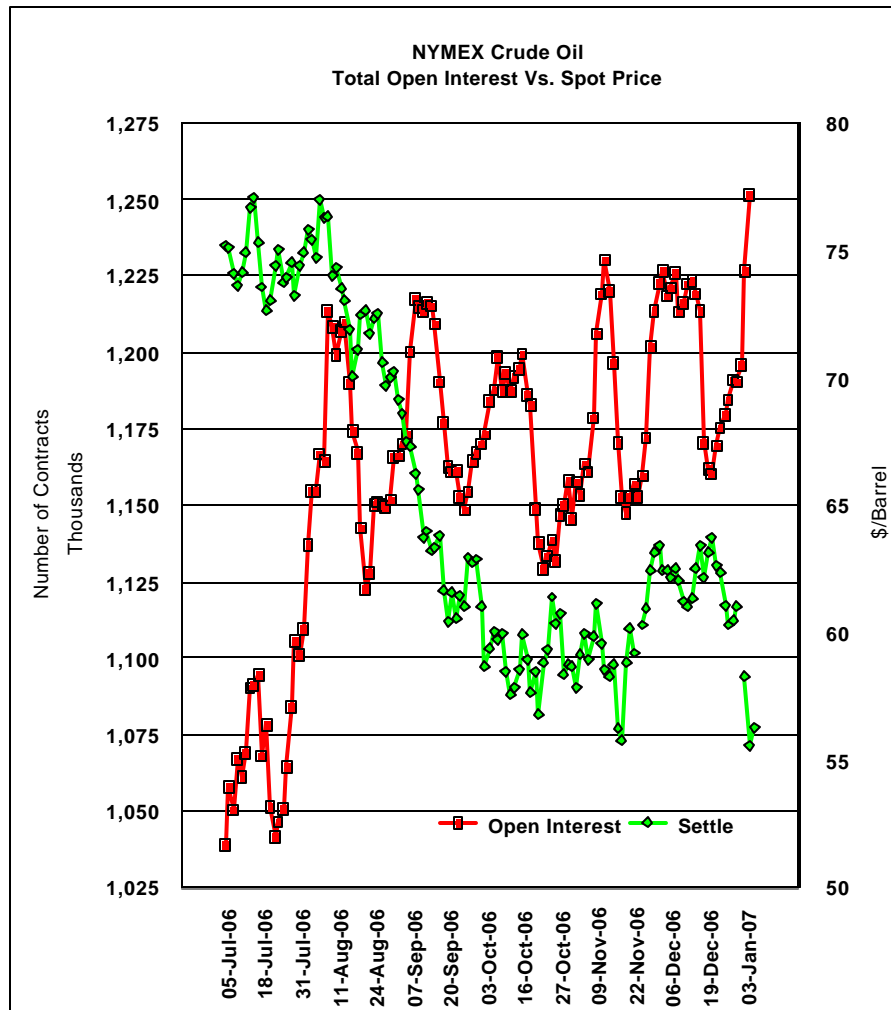
Traders and analysts stated that while oil may have lost 8.5% of its value in the past few trading sessions, the likelihood of a supply response from producers, expectations of sustained demand growth and geopolitical uncertainties may keep the market supported.

Gunmen in Nigeria's Niger Delta abducted five Chinese workers on Friday. The Chinese embassy said it was in contact with authorities in Rivers state to try to secure the release of the workers. The five men were reportedly working on a vandalized electricity line in the Emouhua area of Rivers state. Kidnappings have plagued the delta for many years but they intensified in 2006 and many fear the violence would worsen ahead of Nigeria's general elections in April.

The American Farm Bureau Federation is expected to abandon its call for lawmakers to extend the current crop subsidy law. Democrats want to keep the safety net while increasing biofuels and land stewardship programs. Growth in the fuel ethanol industry has driven corn prices to the highest level in a decade with no end in sight. The Renewable Fuels Association said there were 110 bio refineries in operation and enough construction under way to double the US output of 5 billion gallons a year. Ethanol plants are forecast to consume 20% of US corn this year, making biofuels a new rival to livestock feeders and foodmakers for the feed grain.

The NYMEX set daily volume records on the CME Globex electronic trading platform on Thursday. Total energy and metals futures traded on Globex stood at 698,718 contracts on Thursday following a record of 595,638 contracts on Wednesday. Crude oil futures trading volume reached a record level of 417,771 contracts, surpassing a record level of 386,832 contracts on December 7. Heating oil futures traded 54,332 contracts, surpassing a record of 52,087 contracts on December 13.

Reuters/Jefferies CRB Index fell to a low not seen since the week ending February 27, 2005, when it fell to a low of 290.67, as prices of raw materials remained pressured.



Imperial Oil Ltd said did not know when its fire damaged refinery in Sarnia, Ontario would resume full production. The explosion and fire cut output at the 121,000 bpd refinery by as much as 18,000 bpd.

An Iraqi Oil Ministry source said Iraq was likely to issue a tender to sell Kirkuk crude later on Friday. Stocks of Kirkuk crude at the Turkish port of Ceyhan reached 4 million barrels on January 3. There was no pumping along the northern pipeline overnight. Iraq issued five tenders from June through September, selling a total of 9.6 million barrels of Kirkuk oil.

The National Iranian Oil Refining and Distribution Co said it was in talks with India's Essar Group to build a new refinery in southern Iran. The \$2 billion investment in a 300,000 bpd refinery to

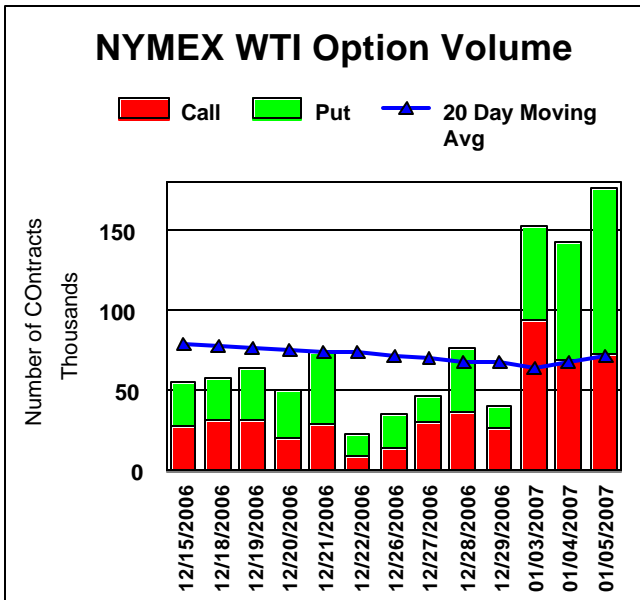
process Iran's heavy crude would give Iran's stagnant refining sector a boost and give Essar a foothold in the country. Iran has been seeking foreign help to upgrade and resurrect its refining sector, with a goal to increase its capacity by at least 1 million bpd by 2010. Two new refineries are also planned in addition to the possible Essar venture, including a 360,000 bpd condensate refinery.

Stocks of gas oil in independent storage tanks in Amsterdam-Rotterdam-Antwerp increased to 1.778 million tons in the week ending January 5. It is up 13,000 tons on the week but down 142,000 tons on the year. Gasoline stocks increased by 73,000 tons on the week to 883,000 tons while fuel oil stocks also increased by 205,000 tons to 710,000 tons on the week. Naphtha stocks fell by 18,000 tons to 65,000 tons while jet fuel stocks built by 18,000 tons to 318,000 tons on the week.

India's Petroleum Secretary M.S. Srinivasan said India planned to double the capacity of its proposed strategic crude oil reserve to 10 million tons and added that it hoped to have built half of it by April 2010. The reserves would be used as a hedge against volatility in international crude oil markets and meet domestic demand in case of short term supply disruptions. The strategic reserve would be in addition to the existing crude oil and petroleum products held by oil companies.

**Production News**

Norway's Petroleum Directorate said the country's oil production fell 2.36 million bpd in 2006 from 2.55 million bpd in 2005. It said it expected 2007 oil output to be somewhat lower than in 2006.

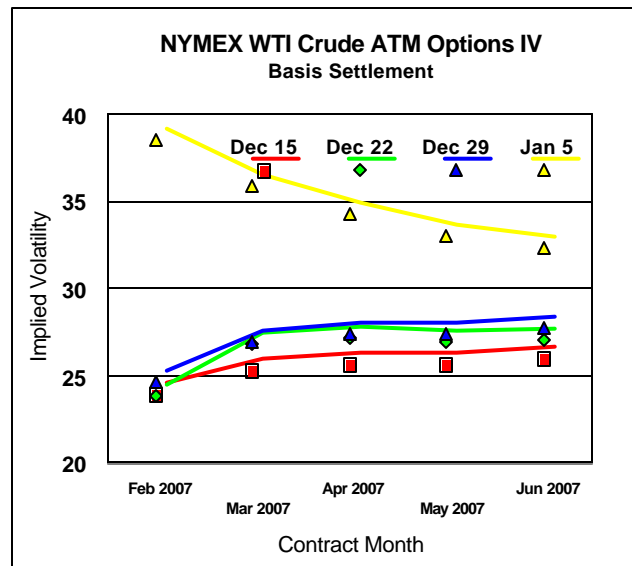


OPEC's news agency reported that OPEC's basket of crudes fell to \$53.23/barrel on Thursday from \$55.39/barrel on Wednesday.

### Market Commentary

The crude market opened 16 cents higher at 55.75 but quickly gave up its early gains, as it remained pressured amid the mild weather. The market breached its previous low of 55.55 and sold off to a low of 55.10. However the market bounced off that level and retraced its losses as the market held support above the 55.00 level. The market may have also been supported amid the comments that OPEC was concerned over the recent slide in prices. The oil market rallied to a high of 56.40 late in the session amid some short covering ahead of the weekend. The market settled up 72 cents at 56.31. Volumes in the crude

market were good with over 229,625 lots traded on Globex during the open outcry trading session. Open interest continued to build, with a build of 24,936 contracts reported as of Thursday's close as traders added to their short positions. Open interest in the February contract fell by 5,558 lots while open interest in the March contract built by 18,570 lots. Meanwhile, the heating oil market posted an inside trading day as it failed to breach its previous trading range. The market opened up 1.79 cents at 156.10 as it retraced some of its previous losses. The market however gave up its gains and posted a low of 154.30 early in the session as the market remained pressured by the weather forecasts. The market held support at its previous low and retraced its losses. It traded to a high of 157.00 late in the session and settled up



2.27 cents at 156.58 amid some short covering. The RBOB market also remained pressured early in the session and posted a

Technical levels			
	Levels	Explanation	
CL	Resistance	57.50 to 58.15, 60.05	Remaining gap (January 4th), Previous high
		56.40	Friday's high
	Support	55.50, 55.10	Friday's low
HO	Resistance	157.00, 158.50	Previous lows (continuation chart)
		154.30	Previous high
	Support	152.70 to 154.50	Friday's high, Thursday's high
RB	Resistance	149.50	Friday's low
		148.00, 146.00	Thursday's low, Previous low
	Support	145.50, 141.00	Remaining gap (January 4th), Friday's high

**NYMEX Petroleum Options Most Active Strikes for January 5, 2007**

Symbol	Month	Year	Call/Put	Strike	Exp date	Settle	Volume	IV
LO	6	7	P	55	05/17/2007	2.47	8,933	33.34
LO	6	7	P	48	05/17/2007	0.85	8,700	35.39
LO	6	7	P	50	05/17/2007	1.18	8,310	34.69
LO	2	7	P	55	01/17/2007	1	4,459	39.05
LO	3	7	C	57	02/14/2007	2.9	3,800	36.11
LO	12	7	C	100	11/13/2007	0.48	3,712	31.36
LO	6	7	P	60	05/17/2007	4.56	3,400	32.37
LO	2	7	P	52	01/17/2007	0.28	3,138	40.49
LO	4	7	P	60	03/15/2007	4.35	2,900	34.43
LO	2	7	P	50	01/17/2007	0.1	2,864	41.76
LO	6	7	P	40	05/17/2007	0.16	2,700	37.68
LO	2	7	C	60	01/17/2007	0.4	2,574	38.52
LO	7	7	P	50	06/15/2007	1.4	2,505	34.81
LO	7	7	P	57	06/15/2007	3.41	2,500	32.88
LO	3	7	P	54	02/14/2007	1.34	2,493	36.97
LO	7	7	P	58	06/15/2007	3.8	2,400	32.58
LO	12	7	P	60	11/13/2007	5.37	2,311	31.05
LO	3	7	P	52	02/14/2007	0.83	2,192	37.79
LO	3	7	P	61.5	02/14/2007	5.3	2,015	36.08
LO	3	7	P	56.5	02/14/2007	2.28	2,000	36.22
LO	2	7	C	56	01/17/2007	1.73	1,988	38.77
LO	3	7	C	70	02/14/2007	0.18	1,978	37.46
LO	8	7	C	63	07/17/2007	4.56	1,965	31.55
LO	3	7	P	53	02/14/2007	1.06	1,893	37.34
LO	4	7	C	70	03/15/2007	0.56	1,891	35.36
LO	6	7	C	70	05/17/2007	1.51	1,889	32.74
LO	3	7	C	61	02/14/2007	1.35	1,785	35.91
LO	3	7	C	63.5	02/14/2007	0.79	1,743	36.09
LO	3	7	C	56.5	02/14/2007	3.16	1,700	36.19
LO	3	7	C	68	02/14/2007	0.29	1,700	37.09
OB	6	7	C	1.84	05/25/2007	0.094	583	31.34
OB	8	7	C	1.8	07/26/2007	0.1314	380	28.95
OB	6	7	C	1.92	05/25/2007	0.0722	165	32.07
OB	2	7	C	1.66	01/26/2007	0.0117	150	41.76
OB	4	7	C	2	03/27/2007	0.0284	125	37.30
OB	5	7	C	1.8	04/25/2007	0.0853	101	32.01
OB	2	7	C	1.75	01/26/2007	0.0041	100	42.30
OB	2	7	P	1.5	01/26/2007	0.0619	100	40.99
OB	3	7	C	1.52	02/23/2007	0.0915	100	37.72
OB	4	7	P	1.5	03/27/2007	0.0363	100	35.34
OH	3	7	C	1.63	02/23/2007	0.0687	605	34.76
OH	2	7	P	1.77	01/26/2007	0.2109	455	39.99
OH	3	7	P	1.74	02/23/2007	0.1711	455	36.18
OH	2	7	P	1.75	01/26/2007	0.1928	301	39.68
OH	3	7	P	1.63	02/23/2007	0.0953	150	34.84
OH	2	7	P	1.56	01/26/2007	0.0529	140	37.45
OH	2	7	P	1.63	01/26/2007	0.0954	100	38.07

low of 146.00. Similar to the rest of the complex, the RBOB market bounced off its low and posted its high of 149.50 late in the session. It settled up 61 points at 149.31. Volumes in the product markets on Globex were light with 26,933 lots booked in the heating oil and 19,806 lots booked in the RBOB market during the open outcry session.

The oil market will likely continue to retrace its recent losses after the market was able to hold its support above the 55.00 level. Technically, the market is seen holding its support as stochastics look ready to cross to the upside. However if the market does erase some of today's gains, its losses will be limited as the market finds further buying as it trades towards the 55.00 level. Meanwhile, resistance is seen at 56.40 followed by its gap from 57.50 to 58.15. More distant resistance is seen at its previous high of 60.05.