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Energy Futures Brokerage

ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JANUARY 10, 2007

Belarus said President Alexander Lukashenko reached an agreement with Russia's President Vladimir Putin to settle a dispute, which has halted oil supplies through the Druzhba pipeline to Europe. Russia's envoy to the European Union later stated that normal flows of Russian oil through the pipeline could restart late Wednesday. Russia had cut off all oil supplies through the Druzhba pipeline on Sunday, saying it was forced to act because Belarus was siphoning off oil from the pipeline illegally. Meanwhile, Belarus claimed the oil was meant to pay for a newly imposed transit tax. Separately, a Ukrainian minister said oil exports via Ukraine's Black Sea port of Yuzhny fell by 50% due to the halt in supplies via Druzhba. Later, Slovak oil pipeline operator Transpetrol said it was notified by Transneft that oil flow through the Druzhba pipeline to Slovakia from Russia would resume on Wednesday afternoon.

Market Watch

Analysts stated that Saudi Arabia's increasing concern over Iran's power in the Middle East may be driving Saudi Arabia to prepare a more aggressive long term political oil strategy that could subvert an Iranian ascendancy. Under a new production program, Saudi Arabia could increase its spare oil drilling capacity to at least 3 million bpd by 2011, up from 2 million bpd. Saudi Arabia has also increased its defense spending to between $50 billion and $60 billion in the next several years for a major upgrade of its entire military. Saudi Arabia has stated that it would not use oil as a political tool. However recent developments in Saudi Arabia's plans to increase production and briefings by a former consultant to the Saudi ambassador to the US have raised questions about whether the country was considering new strategic oil options to counter Iranian influence in the region.

Traders and ship brokers said falling freight rates have opened the heating oil arbitrage to Europe and Latin America, prompting traders to ship hundreds of thousands of tons of US heating oil. The cargoes would add to a European market already struggling to find space for its own heating oil. The flows to Europe would also contrast with the same time a year ago, when the US was absorbing hundreds of thousands of tons from Europe. About 15-20 ships were booked to load in the first half of January so far for delivery to Europe and Latin America.

Accuweather's forecaster Joe Bastardi said mild weather is expected in the eastern US until mid-January, when the first of several cold air masses move across the country from the Midwest to the East. He said February could be cooler than normal in the Midwest and Northeast.

Increased demand for corn based ethanol in the US has improved liquidity in Brazil's corn market. Brazil's corn producers should benefit from the improved prices and new demand for the grain. Brazil exported about 4 million tons of corn in 2006, up from 1 million tons in 2005. The country's corn exports are expected to increase to 5 million tons in 2007. Brazil is expected to harvest 43.5 million tons of corn in 2006/07, up from the 41.6 million last season. Domestic consumption is about 39 million tons a year.

DOE Stocks

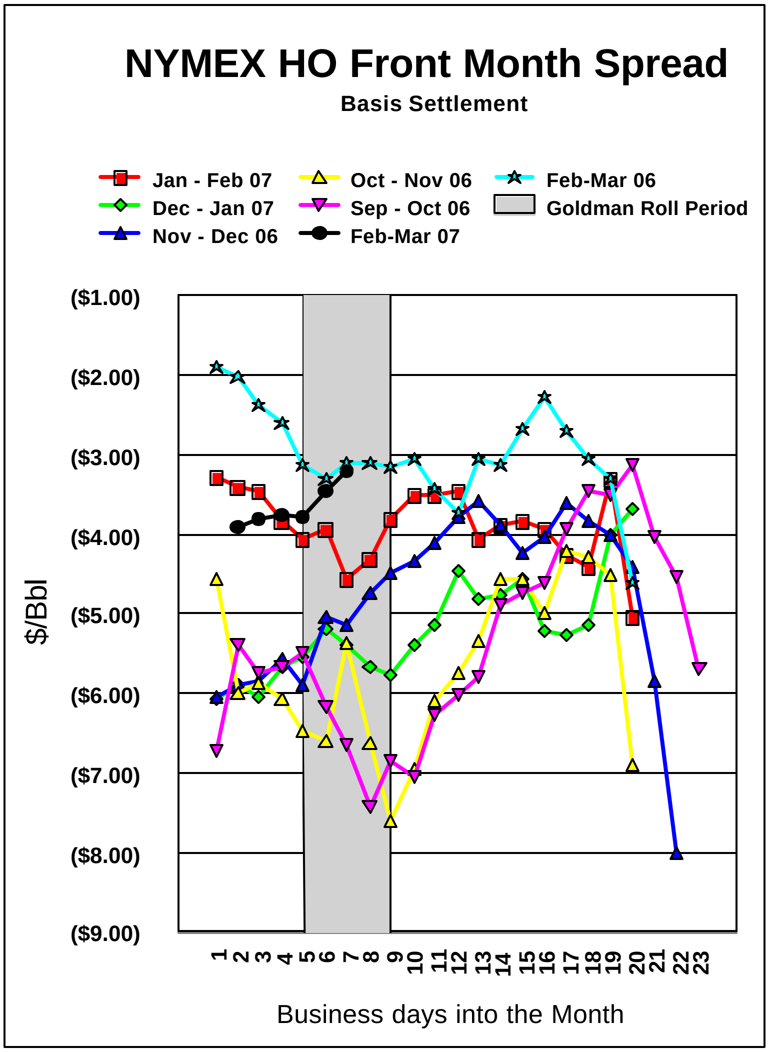
Crude – down 5 million barrels
Distillate – up 5.4 million barrels
Gasoline – up 3.8 million barrels
Refinery runs – up 0.55%, at 91.5%

The IEA's executive director Claude Mandil said Russia's halt of crude supplies through the Druzhba pipeline to Europe has shaken confidence in Russia as a reliable supplier. He said European oil markets for now could handle the halt in oil supplies but would order a stocks release if the disruption were prolonged. Meanwhile, the IEA's chief economist Fatih Birol said Venezuela's plan to nationalize four crude oil projects could impede investment and hinder its ability to increase production. Venezuela's President Hugo Chavez said Orinoco heavy crude projects would become state property. He also recommended the government take control of natural gas projects as part of his program of nationalization.

Refinery News

BP Plc shutdown a 60,000 bpd ultracracker at its 460,000 bpd refinery in Texas City, Texas after a leak in one of the main heat exchangers was found during start up of the unit. The unit restart is expected to begin again early next week.

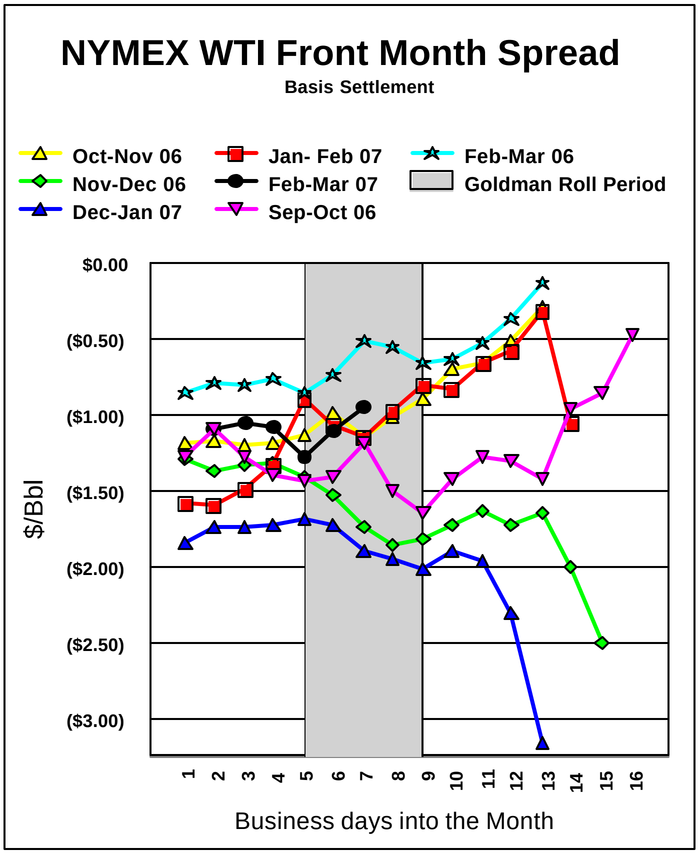
According to the EIA, US ethanol production in October increased by 3.2% to 10.308 million barrels. It reported that ethanol inventories increased by 87,000 barrels or 0.9% to 9.814 million barrels.



Euroilstock reported that total oil and oil product stocks in Europe fell by 5.7 million barrels or 0.5% on the month to 1.145 million barrels in December. It reported that crude stocks fell by 11.31 million barrels or 2.3% to 484.21 million barrels while gasoline stocks built by 1.45 million barrels or 1.1% to 131.33 million barrels. Distillate inventories also increased by 3.68 million barrels or 1% to 385.43 million barrels. It reported that refinery utilization was lower over the month at 92.77% compared with 93.53% in November. Crude intake fell by 100,000 barrels to 12.153 million barrels.

Iran has decided to ration gasoline in the Iranian year starting March 2007. The plan is still pending approval from the conservative dominated parliament. Iran, which lacks refining capacity, has to import about 40% of the 70 million liters of gasoline it burns daily.

Turkey closed the Bosphorus Strait to traffic on Wednesday due to low visibility. Both north and southbound traffic were halted.



Russia's Energy Ministry reported that Russian refineries processed 4.65 million bpd of crude in November, up from 4.49 million bpd in October. It also reported that fuel oil exports fell by 8.3% on the month to 2.7 million tons in November while gasoline exports fell by 0.8% on the month to 512,000 tons. It reported that gas oil shipments increased by 7.4% to 3.234 million tons.

Exports of oil products from the former Soviet Union via Baltic and Black Sea ports in December increased as shippers delayed some loadings from November to December to take advantage of a cut in Russian export duty. Gas oil exports increased by 343,000 tons or 12.2% to 3.16 million tons in December. Fuel oil exports also increased by 125,000 tons or 3.5% on the month to 3.74 million tons while gasoline exports increased by 87,000 tons on the month to 587,000 tons. Also, naphtha exports increased by 72,000 tons to 651,000 tons while jet fuel exports reached 229,000 tons from 187,000 tons in November.

Port sources stated that oil product exports via the Russian Baltic Sea port of St. Petersburg fell by 17.2% in 2006, mainly due to a tax dispute. Russian companies exported 12.75 million tons of oil products via the port last year compared with 15.4 million tons on 2005. The shipments were also affected by river navigation restrictions on July 13-17.

Production News

The North Sea Brent crude oil system is scheduled to load about 238,000 bpd in February, up from 159,000 bpd in January.

Norway's North Sea Gullfaks crude system is scheduled to pump 305,000 bpd in February, up from 303,000 bpd in January. Meanwhile, Norway's North Sea Statfjord crude system is set to load about 275,000 bpd in February, down 1,000 bpd on the month. The North Sea Ekofisk crude system is scheduled to load 536,000 bpd in February, up from 532,000 bpd in January.

Saudi Arabia said it planned to keep crude oil supplies to some European oil refiners steady in February but has deepened a cut to at least one customer. Meanwhile traders stated that Saudi Aramco kept its crude oil volumes to the US relatively unchanged for February.

The National Iranian Oil Co cut the February official selling price for its light crude to Asia to a premium of 10 cents to the Oman/Dubai average, down from a premium of 20 cents in January. It however raised the price of its Iranian Heavy crude to Asian buyers by 30 cents to a discount of $3.15 to the Oman/Dubai average.

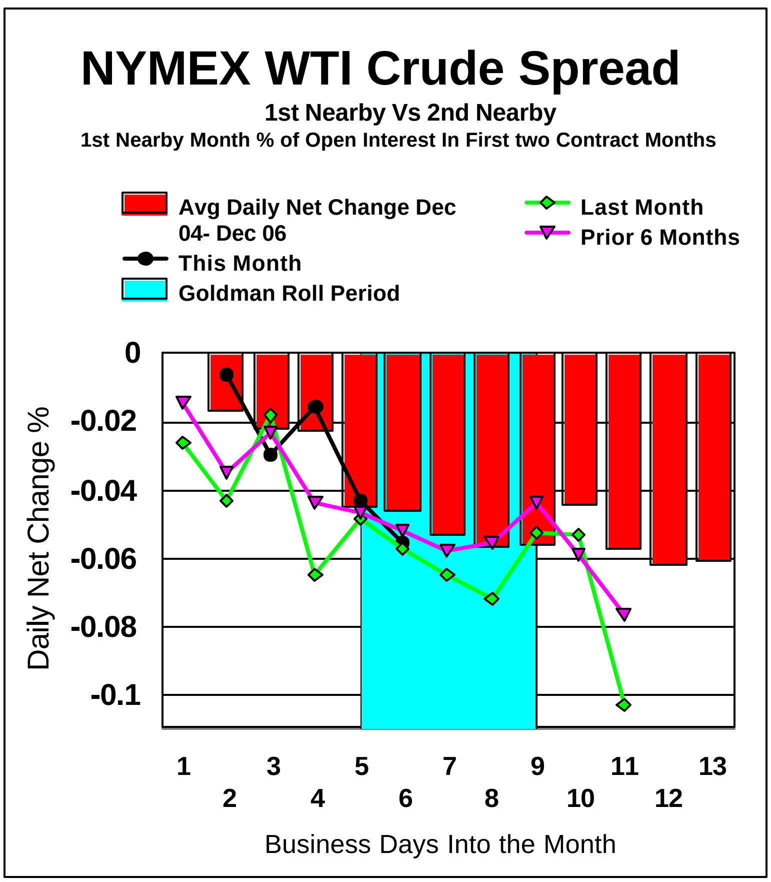
Petroecuador exported 205,426 bpd of crude oil in December, down 6.7% from 220,195 bpd in November.

OPEC's news agency reported that OPEC's basket of crudes fell to $51.17/barrel on Tuesday from $51.86/barrel on Monday.

Technical levels			
		Levels	**Explanation**
CL 54.02, down $1.62	**Resistance**	56.20, 57.25, 57.50 to 58.15	Previous highs, Remaining gap (January 4th)
		54.50, 55.05	Wednesday's high
	Support	53.80	Wednesday's low
		53.50, 53.35, 52.45	Previous lows
HO 152.55, down 3.1 cents	**Resistance**	156.80, 159.50	Previous highs
		154.00, 155.30	Wednesday's high
	Support	151.75	Wednesday's low
		146.10	Previous low
RB 142.92, down 4.04 cents	**Resistance**	149.00, 149.95	Previous highs
		144.00, 145.50	Wednesday's high
	Support	142.00	Wednesday's low
		141.00, 140.77	Previous low, Basis support line

Market Commentary

The oil market opened 74 cents lower and continued to trend lower on news that a compromise had been reached between Russia and Belarus on a dispute that halted oil flow along the Druzhba pipeline to Europe. The market was also pressured amid the expectations that the weekly petroleum stock reports would show builds across the board. The crude market posted a high of 55.05 before it sold off to 54.10 following the release of the DOE report, which showed larger than expected builds in product stocks. The crude market retraced some of its losses in light of the DOE report showing a draw of 5 million barrels in crude stocks before it once again sold off below the 54.00 level. It settled in a sideways trading pattern before further selling pushed the market to a low of 53.80 ahead of the close. It settled down $1.62 at 54.02. Volume in the crude market was light with 145,600 lots booked on the day while crude volume on Globex was much higher with 357,000 lots traded during the open outcry session. Open interest in the crude market fell by a total of 23,049 lots following five consecutive days of builds. Open interest in the February contract fell by 42,310 lots as traders seemed to have liquidated their longs. The heating oil market posted a high of 155.30 early in the session and continued to sell off in light of the DOE report showing a larger than expected build of over 5 million barrels. The market however retraced its some of its losses and settled in a 2 cent trading range. It settled down 3.1 cents at 152.55. The RBOB market also

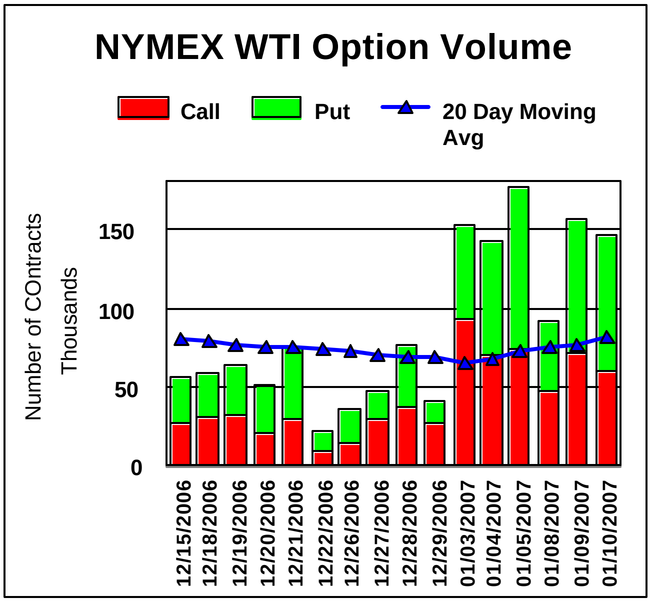


settled down 4.04 cents at 142.92. It initially sold off to 142.50 in light of the larger than expected build in gasoline stocks. The market settled in a sideways trading pattern before further selling pushed it to a low of 142.00 ahead of the close. Product volume on Globex was good with 50,187 lots booked in the heating oil and 33,103 lots booked in the RBOB.

NYMEX Petroleum Options Most Active Strikes for January 10, 2007									
Symbol	**Month**	**Year**	**Call/Put**	**Strike**	**Exp date**	**Settle**	**Volume**	**IV**	
LO	4	7	P	50	03/15/2007	1.15	16,015	37.48	01/10/2007
LO	7	7	P	50	06/15/2007	1.8	7,434	34.90	01/10/2007
LO	2	7	P	51	01/17/2007	0.28	4,628	43.16	01/10/2007
LO	9	7	P	60	08/16/2007	5.94	3,550	32.07	01/10/2007
LO	6	7	C	65	05/17/2007	1.88	3,402	33.27	01/10/2007
LO	3	7	P	45	02/14/2007	0.16	3,191	41.32	01/10/2007
LO	2	7	P	54	01/17/2007	1.23	3,176	41.62	01/10/2007
LO	9	7	P	50	08/16/2007	2.2	3,108	34.71	01/10/2007
LO	2	7	P	50	01/17/2007	0.15	2,158	43.71	01/10/2007
LO	2	7	C	56	01/17/2007	0.51	1,977	41.51	01/10/2007
LO	3	7	C	60	02/14/2007	0.86	1,858	37.52	01/10/2007
LO	6	7	P	50	05/17/2007	1.6	1,750	35.01	01/10/2007
LO	4	7	C	61	03/15/2007	1.49	1,685	35.80	01/10/2007
LO	4	7	P	56	03/15/2007	3.36	1,650	35.85	01/10/2007
LO	12	10	C	100	11/16/2010	1.73	1,650	22.43	01/10/2007
LO	3	7	P	53	02/14/2007	1.67	1,640	38.17	01/10/2007
LO	6	7	C	60	05/17/2007	3.33	1,587	33.15	01/10/2007
LO	6	7	C	58	05/17/2007	4.15	1,575	33.34	01/10/2007
LO	3	7	P	54	02/14/2007	2.08	1,515	37.87	01/10/2007
LO	12	7	C	75	11/13/2007	2.12	1,512	29.81	01/10/2007
LO	12	7	C	65	11/13/2007	4.62	1,510	30.35	01/10/2007
LO	6	7	P	58	05/17/2007	4.66	1,477	33.37	01/10/2007
LO	5	7	P	50	04/17/2007	1.39	1,420	35.56	01/10/2007
LO	5	7	P	45	04/17/2007	0.53	1,413	37.35	01/10/2007
LO	8	7	P	57	07/17/2007	4.43	1,350	33.02	01/10/2007
LO	8	7	C	60	07/17/2007	4.71	1,350	32.40	01/10/2007
LO	3	7	P	55	02/14/2007	2.56	1,345	37.71	01/10/2007
LO	4	7	C	60	03/15/2007	1.75	1,262	35.70	01/10/2007
LO	4	7	C	65	03/15/2007	0.76	1,233	36.32	01/10/2007
LO	3	7	C	62	02/14/2007	0.54	1,205	37.96	01/10/2007
LO	7	7	C	58.5	06/15/2007	4.66	1,200	32.83	01/10/2007
LO	7	7	P	58.5	06/15/2007	4.98	1,200	32.84	01/10/2007
OB	4	7	C	2	03/27/2007	0.0225	200	41.30	01/10/2007
OB	8	7	P	1.72	07/26/2007	0.166	100	32.97	01/10/2007
OB	8	7	C	1.72	07/26/2007	0.1501	100	32.92	01/10/2007
OH	3	7	C	1.8	02/23/2007	0.0162	303	38.84	01/10/2007
OH	3	7	C	2	02/23/2007	0.0039	300	40.91	01/10/2007
OH	2	7	C	1.6	01/26/2007	0.0236	150	40.45	01/10/2007
OH	3	7	C	1.52	02/23/2007	0.0976	100	36.80	01/10/2007

The oil market, which breached its support level and remained pressured in light of the weekly petroleum stock reports, is seen trading lower. Even though stochastics are low and indicating an oversold market, they are still trending lower. The market is seen finding support at its lows of 53.80 followed by 53.50 and 53.35. More distant support is seen at 52.45. Resistance is however seen at 54.50 and its high of 55.05. More distant resistance is seen at 56.20, 57.25 and its gap from 57.50 to 58.15.

The NYMEX crude oil options market continued to see brisk volume in the New Year as traders appeared to flock to the market to seek some price protection in this uncertain time. In addition implied volatilities in the front month options have also jumped considerably at the start of this month. Implied volatilities in the spot option contracts have not been this high since September of 2005.



There has been much talk in the market in recent days over the "potential" changes in the pattern of the GSCI monthly rolls in the energy markets here to start the New Year. Some have argued that the position will be scaled back as investors seek to exit the position after last year's poor results. But so far that does not appear to be supported by NYMEX open interest reports which until today had shown increases in total crude levels until Tuesday when open interest dropped by 23,000 lots. While there is a consensus of opinion on the trading floor that the Goldman business is no longer being executed on the floor but rather being executed for the most part from upstairs electronic trading terminals (Globex and ICE) the pattern of this trading does not look to have deviated much during the roll period. In an attempt to roll back the faceless nature of electronic trading, we to this point have not been able to find any significant deviation in the pattern of the position rolls. We went back and looked at the prior 25 months and looked at the WTI changes in open interest in the spot or first nearby contract and the second nearby contract trading. We looked at the spot contract's percentage of the total open interest of these two months and the daily change in this position. To this point it appears to be following last month's pattern as well as within the general pattern of the prior 6 months and the prior 25-month periods.