



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JANUARY 16, 2007

Saudi Arabia's Oil Minister Ali al-Naimi said production cuts already agreed to by OPEC had removed much of the excess supply and there was no need to panic over the fall in oil prices. He said he saw no need for OPEC to hold an emergency meeting before its next scheduled meeting on March 15 and added that there was no need to implement further cuts. He said stocks in top consumer countries had fallen 30 million barrels in December alone. Meanwhile, Nigeria's Oil Minister Edmund Daukoru supported his Saudi counterpart's call for calm. He said OPEC should wait and see the effects of the February crude oil supply cuts before deciding on any deeper cuts. He said Nigeria's oil production stood at 2 million bpd, which would be in line with Nigeria's output target once the February 1 cut becomes effective. This followed Venezuela's call for an emergency OPEC meeting on Monday. Venezuela's Energy Minister Rafael

Market Watch

Saudi Arabia's Finance Minister Ibrahim al-Assaf said Saudi Arabia has the ability to maintain the riyal currency's exchange rate against the dollar despite fluctuations in crude prices. Speculation about a revaluation gained momentum last week after the UAE said central banks of Gulf Arab oil producers were reviewing pegs to the falling dollar and could agree on a policy shift as early as a meeting in March. Oman and Bahrain have also stated that they had no plans to revalue their currencies.

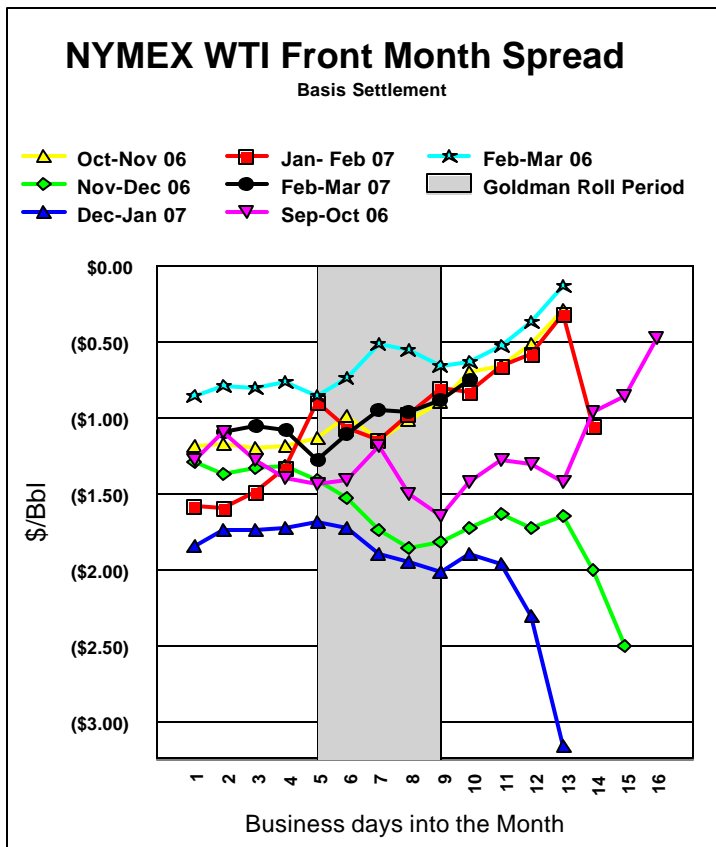
Citigroup Inc maintained a previous forecast of Brent crude at \$58/barrel for 2007. However it said Brent crude oil prices may fall as low as \$50/barrel this year due to mild weather. It said doubts that OPEC would carry out two production cuts and reduced concern that political events may disrupt supply flows were also contributing to the decline.

Hedge funds, SAS Capital Advisors LLC and Citadel Investment Group LLC both gained more than 30%, helped by energy bets it took over after Amaranth Advisors LLC collapsed in September. Hedge Fund Research Inc said the average hedge fund increased by 13% in 2006, up from 9.3% in 2005. It said that while most hedge funds trailed the 15.8% gain of the S&P's 500 Index in 2006, hedge funds attracted \$111 billion in the first quarter of 2005 compared with \$47 billion during all of 2005. Meanwhile Goldman Sachs with \$29.5 billion in assets was hurt in 2006 by wrong bets on bonds, Japanese equities and the US dollar. Macro funds that bet on broad economic trends increased by 8.75% on average in 2006. Soros Fund Management LLC returned 12% in its \$11.6 billion Quantum Endowment Fund.

Russia's Defense Minister Sergei Ivanov said it had delivered new anti-aircraft missile systems to Iran and would consider further requests by Iran for defensive weapons. He said Russia was developing its military and technical cooperation with Iran in accordance with international law and would continue to develop it. Russia's military said the missile systems would protect Iran from air attacks but did not pose a threat to neighboring countries.

French President Jacques Chirac wants to send a senior envoy to Iran to discuss the situation in Lebanon, where the government faces a standoff with the Iranian backed opposition.

Ramirez said oil prices had fallen too much and added that the world markets were oversupplied by up to 1 million bpd. Meanwhile, Qatar's Oil Minister Abdullah bin Hamad al-Attiyah said current oil prices were too low.



Saudi Arabia's Foreign Minister Prince Saud al-Faisal said Saudi Arabia was committed to maintaining oil market stability and would not use oil as a political tool to pressure Iran over its policies in the region. A former Saudi adviser in November suggested that Saudi Arabia could lower oil prices to cut oil revenues and squeeze Shi'ite power Iran. Sunni-Shi'ite Muslim sectarian violence is threatening to descend into a full scale war in Iraq, which Saudi Arabia fears could spill over onto its borders.

Kuwait Petroleum Corp notified its term customers in Asia that it would supply as much crude as requested for February, raising questions about OPEC's pledged output cuts. Term lifters in Japan and South Korea said KPC sent February crude loading schedules and acceptance letters of their supply volumes requests over the weekend.

India's Petroleum Minister Murli Deora said that current world oil prices were reasonable but added that they must remain at these levels.

The UN warned of a looming crisis in Iraq's Kirkuk where it said ethnic Turkmen and Arabs were being intimidated by Kurdish forces. It said the deterioration of the situation in Kirkuk was a major concern. Last week Turkey said it could not stand idly if Kurds seized control of Kirkuk. However Turkey could increase diplomatic and commercial pressure since Turkish territory provides crucial land routes for potential Iraqi oil exports to the west.

Refinery News

Hess' 65,000 bpd refinery in Port Reading, NJ restarted over the weekend after it was shutdown last Tuesday due to a small fire in a pump.

Alon USA said its 70,000 bpd refinery in Big Spring, Texas started the restart process late Friday following a scheduled maintenance turnaround. The refinery had shut a delayed hydrotreater, crude unit, reformer, hydrodesulfurization unit and sulfur recovery unit among others for several weeks of maintenance starting on January 3.

Turnaround work at Chevron's 243,000 bpd refinery in Richmond, California is scheduled to last until the end of February. Chevron declined to state whether a fire in a crude distillation unit on Monday would extend the planned turnaround time.

PDVSA said it would complete maintenance on a fluid catalytic cracking unit at its 130,000 bpd El Palito refinery by mid-February. A PDVSA official said it was carrying out maintenance on the fractionator of the FCC unit, which was not affecting the refinery's production of gasoline.

China's oil refineries are expected to increase production this year by 160,000 barrels or 6% to 2.92 million bpd. Industry sources stated that 16 refineries, making up nearly half of China's total refining capacity, were forecast to process an additional 8.1 million tons of crude oil this year.

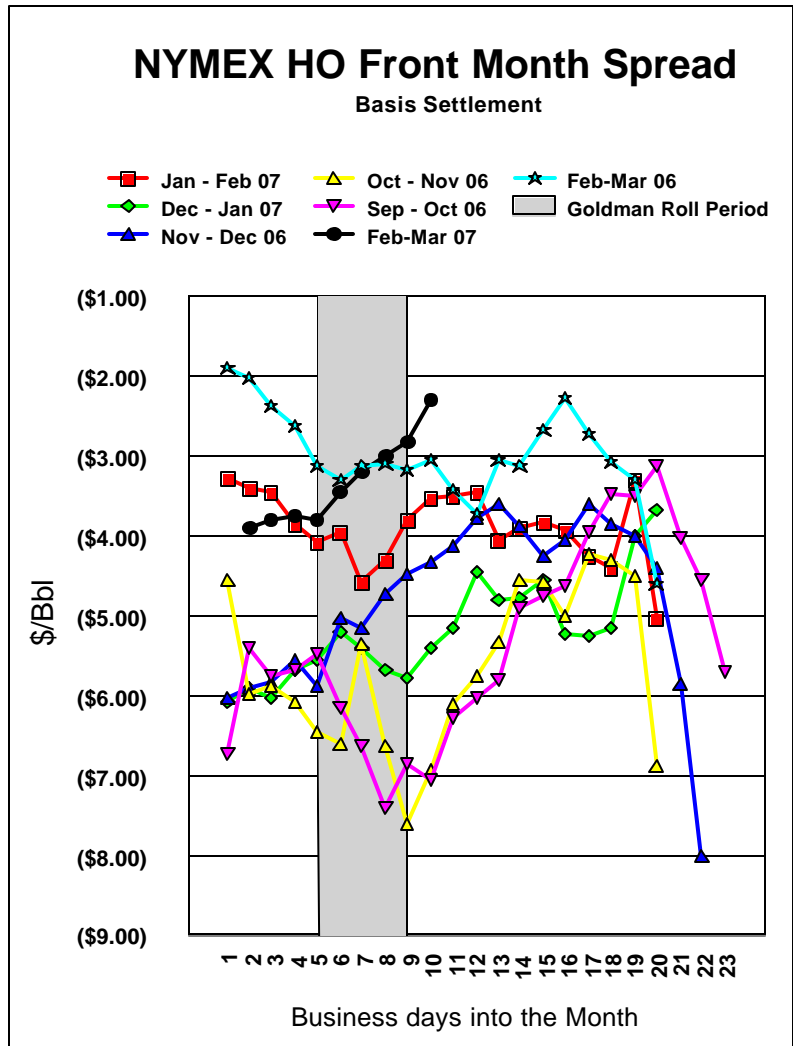
Germany's MWV said the country's oil product sales in December 2006 totaled 6.77 million tons, up 0.5% on the year. Total sales during 2007 stood at 84.243 million tons, up 1% on the year. It reported that Germany's gasoline sales in December increased by 7% to 1.98 million tons while diesel sales increased by 13.5% on the year to 2.5 million tons. It reported that heating oil sales fell by 18.3% to 1.73 million tons while fuel oil sales fell by 0.8% to 560,000 tons.

Georgia's Black Sea port of Batumi increased its crude oil and refined products shipments to 11.7 million tons in 2006 due to new volumes of Azeri crude. However the terminal cut deliveries to 828,400 tons in December 2006 from 938,300 tons in December 2005.

Production News

Oil companies evacuated staff from three oilfields in Nigeria's southern Niger Delta on Tuesday after gunmen killed 12 people in a dispute over oil money on Sunday. Sources in the Kula community, where the attack took place said it was caused by a dispute between local factions over the distribution of money given by oil companies operating there. A spokesman for Royal Dutch Shell said there was no impact on production while a spokesman for Chevron declined to comment. Separately, industry sources reported that a foreign oil worker and a Nigerian serviceman were killed on Tuesday when armed men attacked a small ferry near the Bonny Island oil and gas export complex.

Cerro Negro, a joint venture between ExxonMobil, BP and PDVSA confirmed it declared force majeure as a result of OPEC production cuts. Venezuela's Energy Minister Rafael Ramirez said the project in the Orinoco oil belt has been unable to meet its supply commitments to the Chalmette refinery in Louisiana as a result of OPEC cuts. He said Venezuela had not fully met its OPEC commitments to reduce output, however he pledged full compliance by the end of the month. Separately, Venezuela's Rafael Ramirez said the country would end negotiations with foreign oil companies on how it would



...and the price of oil will rise.

take a majority control of their operations along the Orinoco River. He said private companies would be allowed to own minority stakes in the Orinoco River basin oil projects.

Canada's Trade Minister David Emerson dismissed concern that a fall in crude prices could hurt development of the country's oil sands production. About 80% of Canadian crude oil production is expected to come from the oil sands by 2020.

Indonesia's President Susilo Bambang Yudhoyono said the country's oil production is expected to increase to 1.3 million bpd by 2009 from about 1 million bpd. The government signed 16 oil and gas production contracts with international and local companies and plans to offer 20 new blocks next month.

OPEC's news agency reported that OPEC's basket of crudes increased by 58/barrel to \$49.23/barrel on Monday.

Market Commentary

The oil market opened 74 cents lower at 52.25 after Saudi Arabia's Oil Minister Ali al-Naimi quashed expectations that OPEC would meet soon to discuss the decline in prices and possibly implement further production cuts. Saudi Arabia's Oil Minister said there was no need for an emergency OPEC meeting to consider further cuts and added that production cuts already agreed by OPEC had removed much of the excess supply. The crude market posted a high of 52.35 and continued to sell off in light of the news. The market extended its losses to over \$2.40 as it posted a low of 50.55 in afternoon trading. However the market bounced off that level and retraced some of its losses ahead of the close as it traded above the 51.00 level. It settled down \$1.78 at 51.21, the lowest level seen since May 2005. Volume in the crude market was good with over 309,000 lots booked on Globex during the open outcry session. Crude volume on the floor totaled 159,500 lots. Open interest in the crude market continued to build by a total of 14,268 lots with open interest in the February contract falling by 49,543 lots while open interest in the March and April contracts built by a total of 44,456 lots. Meanwhile, the heating oil market opened down 86 points at 149.50 and posted a high of 150.30. The market however retraced its gains and sold off to 148.05, where it held some support. The market later breached that level as the crude market remained pressured by the Saudi statements. It sold off to a low of 146.40 before it retraced some of its losses ahead of the close. The heating oil market settled down 2.33 cents at 148.03. The RBOB market also settled sharply lower at 136.93, down 6.27 cents. The market posted a high of 141.50 and remained pressured amid the weakness in the oil market. It breached its support at 138.25 and extended its losses to 7.2 cents as it posted a low of 136.00

late in the session. Volumes in the product markets were light with 39,497 contracts booked in the heating oil and

Technical levels			
		Levels	Explanation
CL	Resistance	53.10	Previous high
		51.70, 52.35	Tuesday's high
	Support	50.55	Tuesday's low
		49.76	Basis trendline
HO	Resistance	150.80, 155.20	Previous highs
		148.20, 149.50, 150.30	Tuesday's high
	Support	146.40	Tuesday's low
		146.10, 141.50	Previous lows
RB	Resistance	144.00, 145.80	Previous highs
		138.25, 141.50	Tuesday's high
	Support	136.00	Tuesday's low
		133.06	Basis trendline

25,468 lots booked in the RBOB market on Globex.

NYMEX Petroleum Options Most Active Strikes for January 16, 2007

Symbol	Month	Year	Call/Put	Strike	Exp Date	Settle	Volume	IV
LO	3	7	P	50	02/14/2007	1.92	8,138	48.96
LO	4	7	C	65	03/15/2007	0.56	6,630	43.82
LO	2	7	P	50	01/17/2007	0.3	6,359	71.54
LO	3	7	C	52	02/14/2007	2.79	4,526	48.41
LO	3	7	P	52	02/14/2007	2.83	4,124	48.42
LO	6	8	P	50	05/15/2008	3.95	3,600	30.57
LO	6	7	P	52	05/17/2007	3.74	2,725	38.28
LO	4	7	C	55	03/15/2007	2.57	2,650	42.69
LO	2	7	P	51	01/17/2007	0.65	2,445	70.33
LO	3	7	C	57	02/14/2007	1.09	2,368	48.37
LO	3	7	C	55	02/14/2007	1.63	2,310	48.46
LO	6	7	C	54	05/17/2007	4.42	2,300	38.01
LO	12	7	P	30	11/13/2007	0.22	2,300	39.37
LO	4	7	P	50	03/15/2007	2.33	2,282	43.37
LO	7	7	C	73	06/15/2007	0.64	2,200	35.92
LO	4	7	P	45	03/15/2007	0.9	2,129	44.99
LO	5	7	P	52	04/17/2007	3.49	2,000	39.47
LO	5	7	P	51	04/17/2007	3.04	2,000	39.62
LO	4	7	C	80	03/15/2007	0.05	1,970	46.58
LO	6	7	C	65	05/17/2007	1.37	1,887	38.54
LO	5	7	C	65	04/17/2007	0.94	1,810	39.87
LO	6	7	C	53.5	05/17/2007	4.65	1,760	38.09
LO	6	7	P	53.5	05/17/2007	4.46	1,760	38.04
LO	2	7	P	52	01/17/2007	1.22	1,746	70.62
LO	3	7	P	51.5	02/14/2007	2.58	1,711	48.52
LO	3	7	P	53	02/14/2007	3.39	1,687	48.53
LO	2	7	C	54	01/17/2007	0.07	1,680	71.64
LO	2	7	C	52	01/17/2007	0.43	1,531	70.60
OB	7	7	C	2.25	06/26/2007	0.0165	1,670	36.38
OB	7	7	C	1.7	06/26/2007	0.096	835	32.22
OB	3	7	P	1.32	02/23/2007	0.0433	350	44.07
OB	3	7	C	1.52	02/23/2007	0.0371	350	44.87
OB	6	7	P	1.55	05/25/2007	0.0979	140	32.72
OB	6	7	C	1.8	05/25/2007	0.0574	125	34.38
OB	3	7	C	1.4	02/23/2007	0.078	120	43.76
OB	4	7	C	1.55	03/27/2007	0.1059	100	40.57
OH	3	7	P	1.4	02/23/2007	0.032	600	38.84
OH	2	7	P	1.82	01/26/2007	0.3397	447	56.60
OH	3	7	P	1.78	02/23/2007	0.2871	447	43.53
OH	4	7	C	1.63	03/27/2007	0.0578	447	38.18
OH	3	7	C	1.7	02/23/2007	0.0207	400	41.61
OH	2	7	P	1.8	01/26/2007	0.3198	375	54.76
OH	4	7	P	1.76	03/27/2007	0.2686	375	40.03
OH	6	7	P	1.45	05/25/2007	0.085	375	35.95
OH	6	7	C	1.75	05/25/2007	0.0589	375	36.45
OH	2	7	P	1.5	01/26/2007	0.055	300	45.22
OH	4	7	C	1.6	03/27/2007	0.067	300	37.99

The NYMEX crude oil options continued to see strong activity with nearly 155,000 lots booked on the day. Puts continued to outpace calls with the \$50 put continuing to attract strong trading interest.

The oil market is seen remaining pressured in light of the Saudi statements, which quashed any expectations of further output cuts. The market is likely to gravitate towards the 50.00 level ahead of the crude option expiration on Wednesday as open interest on the \$50 put was over 17,000 lots. Also stochastics still have not crossed to the upside. The market is seen finding initial support at 50.55 followed by more distant support at 49.76 and 49.65. Meanwhile resistance is seen at 51.70 followed by 52.35 and 53.10.