



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JANUARY 17, 2007

Saudi Arabia's Oil Minister Ali al-Naimi said that there was no need to worry about oil prices because the market was healthy. He reiterated that falling oil prices was not a concern for OPEC. He also expressed hope that there would be fewer geopolitical issues affecting the world oil market. In regards to Saudi Arabia's spare production capacity, he said the country's spare capacity is expected to increase to 3 million bpd by February. Meanwhile an OPEC source said OPEC had no plans to hold an emergency meeting. He said OPEC was still waiting for the implementation of the February 1 cuts but added that OPEC was monitoring the market closely and holding consultations to evaluate the situation.

Venezuela's Oil Minister Rafael Ramirez however said OPEC was still considering an extra meeting to discuss further production cuts. Separately, Indonesia's OPEC governor Maizar Rahman said OPEC should cut its production further to halt the decline in oil prices.

Market Watch

The Wall Street Journal reported that T. Boone Pickens said he would not back off his previous prediction that oil would average \$70/barrel in 2007. He said if oil did fall below \$50/barrel, the market would not fall below \$48/barrel.

ExxonMobil corp said oil producers were finding enough hydrocarbons to meet demand, despite concerns about political instability and short term challenges to replacing reserves. Exxon's senior vice president Stuart McGill said the transient tightness in the supply-demand balance would ultimately work itself out.

China's National Development and Reform Commission said world oil prices may fall this year due to slowing demand growth and rising inventories. It said prices for Brent crude may range between \$60 and \$65/barrel this year as increased supply from non-OPEC producers and changing weather patterns may prevent levels from rising. It said prices of domestic upstream energy products would likely be kept at higher levels, as demand and supply of raw materials remain tight.

Pakistan International Airlines said it would start hedging up to 20% of its fuel purchases starting February. The government last month allowed the company, which purchases over \$558 million of jet fuel a year, to hedge its fuel purchases.

According to Petrologistics, the ten OPEC members subject to quotas are expected to produce 27.1 million bpd in January, down 200,000 bpd on the month. January's supply would still exceed its target of 26.3 million bpd by 800,000 bpd. Saudi Arabia is expected to produce 8.75 million bpd in January, down from 8.76 million bpd in December. Iran's production is expected to fall about 50,000 bpd to 3.85 million bpd while Kuwait's oil production is expected to fall by 40,000 bpd on the month. Petrologistics reported that production by the 12 members, including Iraq and Angola, is expected to increase to about 30.6 million bpd. Iraq's production is expected to remain steady at 1.95 million bpd

while Angola is expected to produce 1.6 million bpd.

NYMEX Petroelum Futures Most Active Strikes for January 17, 2007								
Symbol	Month	Year	Call/Put	Strike	Exp Date	Settle	Volume	IV
LO	3	7	C	72	02/14/2007	0.03	5,750	47.78
LO	3	7	C	52	02/14/2007	3.19	5,378	44.89
LO	5	7	P	53	04/17/2007	3.29	5,315	37.31
LO	8	7	P	54.5	07/17/2007	4.56	4,850	34.09
LO	8	7	C	54.5	07/17/2007	5.6	4,850	34.24
LO	5	7	C	53	04/17/2007	4.55	4,797	37.45
LO	3	7	P	52	02/14/2007	2.06	4,694	44.77
LO	3	7	P	52.5	02/14/2007	2.28	3,625	44.53
LO	3	7	C	52.5	02/14/2007	2.91	3,225	44.59
LO	3	7	C	57	02/14/2007	1.19	3,106	44.47
LO	3	7	P	50	02/14/2007	1.31	2,425	45.46
LO	4	7	C	62	03/15/2007	0.92	2,200	40.30
LO	4	7	C	55	03/15/2007	2.8	2,110	39.87
LO	3	7	P	48	02/14/2007	0.78	1,995	46.20
LO	6	7	P	50	05/17/2007	2.43	1,967	37.36
LO	12	7	P	50	11/13/2007	3.28	1,957	33.22
LO	3	7	P	47	02/14/2007	0.58	1,892	46.42
LO	8	7	P	48	07/17/2007	2.22	1,850	36.23
LO	3	7	C	53	02/14/2007	2.66	1,831	44.56
LO	3	7	C	62	02/14/2007	0.37	1,821	45.08
LO	3	7	C	51.5	02/14/2007	3.47	1,810	44.93
LO	3	7	C	59	02/14/2007	0.76	1,702	44.66
LO	6	7	C	54	05/17/2007	4.79	1,687	36.65
LO	3	7	P	51.5	02/14/2007	1.85	1,683	44.93
LO	11	7	P	50	10/17/2007	3.21	1,550	33.72
OB	12	7	C	1.7	11/27/2007	0.0768	1,100	30.13
OB	3	7	C	1.5	02/23/2007	0.0472	800	44.60
OB	12	7	C	1.45	11/27/2007	0.1478	550	28.09
OB	6	7	C	1.4	05/25/2007	0.2532	200	34.57
OB	2	7	P	1.3	01/26/2007	0.0131	110	48.76
OB	3	7	P	1.3	02/23/2007	0.0313	100	44.30
OB	4	7	C	1.55	03/27/2007	0.1163	100	40.64
OH	2	7	C	1.65	01/26/2007	0.0053	560	46.91
OH	2	7	P	1.35	01/26/2007	0.0034	560	46.14
OH	3	7	P	1.73	02/23/2007	0.2255	500	42.37
OH	4	7	P	1.55	03/27/2007	0.1047	500	37.61
OH	4	7	P	1.52	03/27/2007	0.0892	435	37.61
OH	4	7	C	1.52	03/27/2007	0.1078	435	37.64
OH	2	7	C	1.5	01/26/2007	0.0424	325	45.37
OH	2	7	P	1.9	01/26/2007	0.4002	175	67.68
OH	4	7	P	1.73	03/27/2007	0.2286	175	39.38
OH	3	7	C	1.5	02/23/2007	0.0875	156	39.76
OH	12	7	C	1.68	11/27/2007	0.1827	110	29.37
OH	3	7	P	1.5	02/23/2007	0.0649	100	39.76
OH	9	7	C	1.72	08/28/2007	0.1248	100	34.53

Iraqi Oil Ministry sources said Iraq was aiming to find the best model for its future contracts with international oil companies by studying existing agreements in Norway, Britain and the US. They said a draft Oil Law, agreed by Iraq's Oil Committee, did not stipulate what form future oil contracts would take. The law is expected to go before the cabinet early next week.

Analysts said retail gasoline prices are expected to fall to close to \$2/gallon in the coming weeks to reflect a recent fall in the price of crude. The AAA said if crude prices remain around \$51/barrel, retail gasoline prices could fall by 20 cents to \$2/gallon. The EIA expressed similar sentiment, stating that prices are expected to fall to \$2/gallon. According to the AAA, retail gasoline prices averaged \$2.229/gallon on Wednesday, down from an average of \$2.322/gallon January 2.

Refinery News

Valero Energy Corp's 260,000 bpd refinery in

Port Arthur, Texas lost steam pressure on Tuesday morning, causing malfunctions on gasoline and sulfur recovery units.

According to a notice filed with the Texas Commission on Environmental Quality, ConocoPhillips' 146,000 bpd refinery in Borger, Texas suffered a problem in Area B on Tuesday.

Shell Oil Co began restarting a hydrogen generation unit at its 156,000 bpd refinery in Wilmington, California on Tuesday.

Round trip delays on the Bosphorus fell to six to eight days on Wednesday. The Gulf Agency Company shipping said currently 17 tankers were waiting for passage. Round trip delays on the Dardanelles strait to the south amount to 16-18 days after recent closures.

Production News

Royal Dutch Shell cut its output by 12,000 bpd at its Ekulama 2 oilfield station after communal violence in the area forced it to evacuate workers. Twelve people were killed by gunmen on Sunday in an escalation of a dispute between rival factions of a community over leadership and access to oil company payments.

A Nigerian militant group said it may free a sick Italian hostage later on Wednesday. However three other captives would be kept longer. The four hostages were kidnapped from an oil export terminal operated by Italy's ENI on December 7.

Chevron's Indonesian unit said it planned to increase its 2007 spending on operations in central Sumatra and east Kalimantan by 33.3% in an attempt to stop the decline in oil production. Chevron Indonesia's capital expenditure would increase to \$800 million to \$1 billion in 2007 from \$750 million last year. Chevron is the largest producer of oil in Indonesia with an output of 430,000-440,000 bpd.

OPEC's news agency reported that OPEC's basket of crudes fell to \$48.57/barrel on Tuesday from a revised \$49.33/barrel on Monday.

Market Commentary

The oil market posted an inside trading day after it failed to breach Tuesday's trading range. The market open down 31 cents at 50.90 in follow through selling seen in overnight trading on Globex and posted a low of 50.60. The market failed to breach its previous support level and gravitate towards the psychological 50.00 level, as had been expected in light of the large amount of open interest in the \$50 puts ahead of option expiration at the close. It bounced off its low and extended its gains to over \$1 as it posted a high of 52.30 ahead of the close. The crude market saw a late day rally on short covering ahead of the Thursday's release of the weekly petroleum stock reports after the market failed to test its support levels. The market settled up \$1.03 at 52.24. Volume in the crude market was excellent with over 307,000 lots traded on Globex during the open outcry session while floor volume stood at 190,000 lots. The heating oil market traded to a low of 147.00 early in the session and erased its gains as it traded 149.20. However some further selling pushed the market to a low of 146.80. The market later bounced off its low and rallied to a high of 150.30 amid the strength in the oil market. It settled up 1.95 cents at 149.98. The RBOB market gapped lower from 136.00 to 134.95 as the market continued to trend lower. The market, which held good support at its low, bounced off that level and retraced its losses. The market rallied to a high of 138.25 ahead of the close amid the strength in the oil market. The market settled up 93 points at 137.86. Volume in the product markets on Globex were better today with 40,474 lots booked in the heating oil market and 28,344 lots booked in the RBOB market.

Despite the market's rally during today's session, the market's downward trend is likely to continue after it posted an inside trading day. It is seen retracing some of its gains as the weekly petroleum stock reports are expected to show builds across the board. Crude stocks are expected to build by less than 500,000 barrels while distillate and gasoline stocks are expected to build by 1.5 million barrels and 2 million barrels, respectively. The market is seen finding support at 51.50 followed by its low of 50.60-

50.55 and the 50.00. More distant support is seen at 49.06. Meanwhile resistance is seen at 52.30, 52.35 and 53.10.

Technical levels		
	Levels	Explanation
CL 52.24, up \$1.03	Resistance 52.30, 52.35	Previous high Wednesday's high, Tuesday's high
	Support 51.50, 50.60 50.55, 49.06	Wednesday's low Previous low, Basis trendline
	Resistance 149.98, up 1.95 cents	150.80, 155.20 150.30
HO 137.86, up 93 points	Support 147.50, 146.80 146.40, 146.10, 141.50	Wednesday's low Previous lows
	Resistance 137.86, up 93 points	144.00, 145.80 138.25, 141.50
RB 137.86, up 93 points	Support 135.70, 134.95 131.25	Wednesday's low Basis trendline