



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JANUARY 31, 2007

US Energy Secretary Samuel Bodman said he believed the world oil markets were well supplied ahead of the upcoming driving season and the expected additional production cuts due to be implemented by OPEC on Thursday.

Algeria's Energy and Mines Minister Chakib Khelil said OPEC is expected to leave its production unchanged when it holds its scheduled meeting on March 15. He said oil prices are expected to increase over the next few weeks. Meanwhile, Iran's Oil Minister Kazem Vaziri-Hameneh said increasing non-OPEC supply and warm weather in Europe was reducing demand for oil and added that if that continued, oil prices were not expected to increase. He also stated that the recent signing of energy deals showed the rest of the world was not following a US lead to put economic pressure on Iran. Royal Dutch Shell and Repsol signed a

Market Watch

The EIA said US retail gasoline prices appear to have bottomed out as the price for regular unleaded gasoline remained at \$2.17/gallon for the second week. It said gasoline prices are likely to increase in the weeks ahead because Saudi Arabia plans to follow through on its pledge to cut production further starting February 1. The EIA also stated that while US gasoline inventories are currently ample, they should fluctuate from one end of the average range to the other as gasoline demand increases in February and March. However it stated that even if gasoline prices rise over an extended period, gasoline prices are not expected to reach \$3/gallon, barring a major disruption in refinery or pipeline operations or with crude oil supplies.

According to a Merrill Lynch analyst, US gasoline futures are expected to repeat last February's fall in prices as supply reaches excessive levels. Refiners have been rushing to increase yields in favor of gasoline, pushing stocks to 220.8 million barrels. Last February, gasoline cracks fell as stocks reached a record 226 million barrels. Traders and analysts said that the warm start to the winter has left supplies of heating oil unusually high, prompting US refiners to start producing and storing gasoline earlier than usual.

NYMEX Holdings Inc said its net income increased to \$42.3 million from \$20.7 million. Its revenue increased 40% to \$124.8 million from \$88.9 million. The NYMEX's CEO James Newsome said its net earnings were driven by record volume growth and the continued expansion of electronic trading. The NYMEX division of the exchange saw its average daily volume increase 38% in the fourth quarter. Total revenue from electronic trading more than doubled to \$25 million from \$10 million a year ago while pit trading revenue fell 19% to \$24 million from \$30 million a year ago.

The Dutch meteorological institute KNMI said this month has been the warmest January in the Netherlands since temperatures were first measured in 1706. The average temperature in January was about 7.1 degrees Celsius, 2.8 degrees more than usual.

DOE Stocks

Crude – up 2.7million barrels

Distillate – down 2.6 million barrels

Gasoline – up 3.8 million barrels

Refinery runs – down 0.34%, at 87.1%

preliminary deal on Saturday to develop Iran's South Pars gas field despite US pressure not to invest. US officials said the deal was likely to be reviewed to see if it should trigger US sanctions on the companies.

Qatar's Finance Minister Yousef Hussain Kamal said oil prices over \$50/barrel would not hurt Qatar's economy.

However he said prices below that level could slow down growth as the country expands its oil and gas production. He said Qatar's crude production was 800,000 bpd and is expected to increase to 1.1 million bpd by 2012.

Iran is expected to start 10 days of celebrations on Thursday, marking the anniversary of the 1979 Islamic revolution. Officials have been promising to unveil a major advance in its nuclear program. Iran's President Mahmoud Ahmadinejad said he would make an announcement about the development of the country's nuclear program. In December, Deputy foreign minister Mehdi Mostafavi said the first phase of production of nuclear fuel for industrial needs would commence during the celebration. Iranian leaders have not shown any intention of yielding to demands of the UN's resolution. However Iran could face more sanctions after February 21, when the UN's IAEA chief Mohamed ElBaradei is due to submit a report on Iran's compliance to the UN Security Council.

Separately, Sadeq Kharrazi, a relative of the Iran's Supreme leader Ayatollah Ali Khamenei said Iran's nuclear program has not caused a rift among Iranian leaders. He denied some reports that the Supreme leader had ordered President Mahmoud Ahmadinejad to stop his nuclear speeches. He said Iran had no wish for confrontation and added that solution could be found through reaching a rational compromise.

Nigeria's Energy Minister Edmund Daukoru said Nigeria's government was facing a new challenge of dealing with the purely criminal element in the Niger Delta and avoid turning the region into a battleground. He said simply increasing the number of security forces could aggravate an already volatile situation. The Energy Minister met late on Tuesday with union leaders and senior managers of the main oil companies to try and reassure them that the government was serious about ending the violence in the Niger Delta. The union leaders expressed disappointment after Tuesday's meeting, stating that a date had still not been set for a stakeholders' forum.

Refinery News

Shell Oil Co's 156,000 bpd refinery in Martinez, California reported flaring early Wednesday morning. A notice filed with the California Emergency Management Office did not state what triggered the use of the refinery's safety flare system.

ConocoPhillips' 146,000 bpd refinery in Borger, Texas suffered a brief upset Tuesday afternoon.

The Louisiana Offshore Oil Port has asked the owners of 6 million barrels of Mars Blend crude oil currently stored at the company's storage facility near Galliano, Louisiana to move all but 600,000 barrel of oil by March. The move could result in the largest release of Mars Blend crude into the market since August, when the LOOP ran out of storage for the grade. The LOOP is planning to conduct an inventory of the facility. Oil is removed from the salt cavern, then slowly returned, in order to verify how much crude is actually being held.

An official at Belneftekhim said Belarus planned to refine 4.4 million tons of crude in the first quarter of 2006, increasing oil purchases from Russia by 10%.

India's Oil Ministry reported that the country's domestic oil product sales in December increased by 3.9% on the year to 10.5 million tons. India's diesel sales increased by 6.9% on the year to 3.93 million tons while petrol sales increased by 9.6%. It reported that India's refined product imports increased to 1.54 million tons from last year's level of 920,000 tons and November's 1.32 million tons. Meanwhile its product exports fell by 2.12 million tons, down from last year's 2.29 million tons and from November's 2.4 million tons.

The Petroleum Association of Japan reported the kerosene stocks fell by 3.5% on the week to 4.26 million kiloliters or 26.78 million barrels in the week ending January 27. It reported that gasoline stocks increased by 2.23% on the week to 2.32 million kl or 14.6 million barrels. Commercial crude stocks stood at 16.73 million kl or 105.24 million barrels. Japanese refiners operated their plants at an average 85.2% of total capacity of 4.83 million bpd, down from 87.8% the week before.

Japan's Ministry of Economy, Trade and Industry reported that the country's crude oil imports in December fell by 4.3% on the year to 4.281 million bpd. Its oil product imports increased by 18% to 685,563 bpd while its oil product exports fell by 30.8% to 302,900 bpd. It reported that Japan's oil product sales fell by 7.2% on the year to 4.576 million bpd, with a fall in gasoline sales of 1.1% to 1.129 million bpd. Its gasoline sales in 2006 stood at 60.94 million kiloliters or 383.3 million barrels. It also reported that crude stocks in December increased by 6.9% on the year to 112.125 million barrels while product stocks increased by 10.5% on the year to 86.009 million barrels.

Russian gas oil exports out of the Black Sea port of Novorossiisk are expected to total 550,000 tons in February. Meanwhile, Russia's gas oil exports out of the Black Sea port of Tuapse are expected to total 180,000 tons in February, compared with 270,000 tons planned in January.

Production News

Mexico's Pemex said its crude production increased to 3.153 million bpd in January, up 6% on the month. Its Cantarell oilfield produced 1.493 million bpd of crude in December, down 25% on the year.

An Indonesian Mines and Energy Ministry said the country was aiming to increase its crude oil and natural gas production by 30% by 2009. Oil production is expected to increase to 1.326 million bpd in 2009 from 1.02 million bpd in 2006.

OPEC's news agency reported that OPEC's basket of crudes fell by 48 cents/barrel to \$50.72/barrel on Tuesday.

The European Commission proposed that oil companies cut greenhouse gas emissions from the production, refining, transport and use of fuel in a new set of rules aimed at fighting global warming. The proposals seek to cut emissions from oil's life cycle from the ground to the car's exhaust by 10% from 2011-2020. The Commission said the move would cut emissions by 500 million tons of carbon dioxide by 2020.

Qatar's Finance Minister Yousef Hussain Kamal said Qatar was operating three LNG plants at full capacity after they were closed due to ice formations in pipes. It was forced to close three LNG plants earlier this month, forcing it to delay shipments to Petronet LNG in India. Shipments were restarted last week.

Market Commentary

The oil market opened 62 cents lower at 56.35 as it retraced some of Tuesday's gains ahead of the release of the weekly petroleum stock reports. The market quickly sold off to a low of 55.75 in light of the larger than expected builds reported in crude and gasoline stocks by the DOE. The crude market

however bounced off its low amid the strength in the heating oil market, which was well supported by the draw reported in distillate stocks. The crude market retraced its losses and breached its previous high of 57.05 as it rallied to 57.80, where it held some resistance. The oil market later breached that level and rallied to a high of 58.20 ahead of the close and settled up \$1.17 at 58.14. Volume in the crude market was good with 353,403 lots booked on Globex during the open outcry session. The heating oil market posted a low of 161.60 early in the session but quickly retraced its losses in light of the 2.6 million barrel draw reported in distillate stocks by the DOE. The market remained well supported and rallied to a high of 168.00 ahead of its expiration at the close. It settled up 1.66 cents at 165.46. The March heating oil contract settled up 3.8 cents at 168.38 after the market rallied to a high of 168.50 in light of the inventory reports and the weather forecasts still calling for below normal temperatures in the Northeast into mid-February. Meanwhile, the February RBOB contract settled down 2.04 cents at 150.09 after the market retraced its gains ahead of its expiration at the close. The market traded to a high of 152.50 early in the session before it sold off on liquidation. The March RBOB contract posted a low of 151.25 in light of the larger than expected build in gasoline stocks. However it bounced off that level and rallied to a high of 156.80 before it gave up some of its gains ahead of the close. It settled up 16 points at 155.24.

The oil market will likely remain supported following today's late gains. It is also seen remaining supported by the expected output cuts by OPEC, which start on Thursday. Technically, the market is seen finding resistance at its high of 58.20 followed by its gap from 58.45 to 59.30. Meanwhile support is seen at 56.90, 56.60 and its low of 55.75. More distant support is seen at 54.45, 53.75-53.70 and 53.05.

Technical levels		
	Levels	Explanation
CL 58.14, up \$1.17	Resistance 58.45 to 59.30	Remaining gap (January 8)
	Support 56.90, 56.60, 55.75 54.45, 53.75, 53.70, 53.05	Wednesday's high Wednesday's low Previous lows
HO 168.38, up 3.8 cents	Resistance 170.00, 170.80	Previous highs
	Support 168.50 March 163.50, 161.80 157.10, 155.55	Wednesday's high Wednesday's low Previous lows
RB 155.24, up 16 points	Resistance 159.24, 163.25	Backfills gap, Previous high
	Support 156.80 March 152.00, 151.25 148.25, 147.10	Wednesday's high Wednesday's low Previous lows