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ENERGY MARKET REPORT FOR FEBRUARY 22, 2007

An IAEA report confirmed Iran has expanded its nuclear fuel program, exposing Iran to possible wider sanctions. Analysts said harsher sanctions face serious obstacles, as Russia, China and some EU powers prefer further dialogue with Iran to Washington's thrust to isolate and punish it. The report confirmed that Iran has started installing the first group of 3,000 centrifuge machines planned at its Natanz plant this year. The US has built up aircraft carrier strike forces in the Gulf as a warning to Iran. The carrier USS Stennis arrived in the region with more than 6,500 sailors to join Dwight D. Eisenhower. However President George W. Bush has insisted that he was seeking to resolve the impasse over Iran's nuclear program with diplomacy. Britain has also stated that no attack was being planned and a diplomatic solution was the only sensible strategy. In response, the deputy head of Iran's Atomic Energy Organization, Mohammad Saeedi said Iran could not accept the suspension of its uranium enrichment, as demanded by the UN Security Council, because it has no legal basis. He also stated that the report showed talks were the best route to end the dispute.

Market Watch

Traders stated that gasoline arbitrage flows from Europe to the US are expected to increase. Shipping brokers said seven 37,000 ton cargoes of spot gasoline, totaling about 260,000 tons, were booked on Tuesday and Wednesday due for loading at European ports over the next two weeks.

Deutsche Bank AG reported that Saudi Arabia needs an oil price of \$38/barrel to balance its trade while the UAE needs an oil price of \$18/barrel to maintain a balanced current account. It forecast a crude price of \$62/barrel for 2007 and added that both countries could sustain a considerable fall in prices before it starts hurting their economies.

Iran's official IRNA news agency reported that an Iranian delegation is scheduled to travel to Russia in the next 10 days to discuss ways to resolve a dispute over payments that has delayed construction of Iran's first nuclear plant. Russian nuclear officials said that Iran missed several payments worth a total of more than \$70 million for the construction of the Bushehr reactor. However Iran stated that the payments were up to date.

Ecuador's Energy Minister Alberto Acosta said the country hoped to rejoin OPEC in the second quarter. He said Ecuador would benefit from closer ties with oil rich Arab countries and cooperation with state oil companies from OPEC members.

The NYMEX announced that a bundled seat, with trading and equity rights, sold for a record \$11.2 million.

The Dubai Mercantile Exchange Ltd is scheduled to open on May 1, pending regulatory approvals. The initial three contracts to be traded on the DME would be the physically delivered Oman crude oil futures contract and two financially settled contracts, a Brent-Oman spread contract and a West Texas Intermediate -Oman spread contract.

Oil Movements stated that OPEC's exports are expected to increase by 70,000 bpd to 24.15 million bpd in the four weeks ending March 10. It estimated OPEC's cuts at about 890,000 bpd compared with targeted reductions of 1.7 million bpd.

Refinery News

TEPPCO said it could restart the shut portion of its 240,000 bpd refined oil products pipeline by Saturday, if repairs proceed as planned. The pipeline leaked diesel in Franklin County, Indiana on Tuesday causing the company to shut fuel flows to the Ohio, Pennsylvania and New York markets.

The Houston Ship Channel was closed to inbound vessels on Thursday morning due to dense fog that made navigation unsafe.

South Korea's SK Incheon Oil is expected to maintain its crude processing rate for March at 180,000 bpd unchanged from February.

Japan's Ministry of Finance reported that the country's crude oil imports fell in January, reflecting a slowdown in refinery operations due to low demand amid unseasonably warm winter weather. Its crude imports totaled 20.114 million kiloliters or 4.08 million bpd. Its imports of oil products increased by 4.1% in January.

South Korea's Korea National Corp said the country imported 9.5% less crude in January compared with December. Domestic demand for products fell by 4.3% on the month to 73 million barrels or 2.43 million bpd on lower heating demand in January.

Indonesia's Pertamina has allocated 1.05 million barrels of low sulfur waxy residue for March, steady on the month.

Singapore's International Enterprise reported that the country's residual fuel stocks increased by 4.257 million barrels to 14.384 million barrels in the week ending February 21. It also reported that light distillate stocks increased by 1.079 million barrels to 9.815 million barrels while middle distillate stocks increased by 1,000 barrels to 7.471 million barrels on the week.

Production News

According to Petrologistics, the ten OPEC members, excluding Iraq and Angola, are expected to pump 26.8 million bpd in February, down from a revised 27.3 million bpd in January. Saudi Arabia cut its production in February to 8.6 million bpd from 8.85 million bpd in January. Total OPEC production, including Iraq and Angola, is expected to fall to 30.3 million bpd from 30.7 million bpd in January. Iraq's production is expected to increase to 1.85 million bpd in February from 1.72 million bpd in January.

The Movement for the Emancipation of the Niger Delta said a Lebanese hostage escaped from his captors in the remote creeks of Nigeria's Niger Delta and was not freed as his employer stated. The Nigerian militants, who had been holding the Agip employee since December 7 said the oil firm and local authorities who helped him escape would pay a hefty price for the slight.

Venezuela's President Hugo Chavez said Venezuela aimed to increase its oil exports to China to almost 1 million bpd in 2011. Venezuela sold 150,000 bpd to China at the end of last year and is expected to increase its sales to 300,000 bpd this year as it moves towards its 2011 target.

OPEC's news agency reported that OPEC's basket of crudes increased by 52 cents/gallon to \$53.85/barrel on Wednesday.

Russia's Gazprom said it would be hard to see how countries could influence market prices in the way that OPEC does.

Western Australia was hoping to increase production of liquefied natural gas to an annual 50 million tons in the next 10-15 years from the current 16 million tons.

Market Commentary

The oil market traded mostly sideways and held its support early in the session following the release of the DOE report, which showed larger than expected draws in product stocks. The DOE also showed that total petroleum stock fell by 11.1 million barrels on the week. The market later breached its support just below the 60.00 level and sold off to a low of 59.75. The oil market however bounced off that level and rallied above the 61.00 level. It extended its gains to \$1.18 and posted a high of 61.25. The market later retraced some of its gains ahead of the close and settled up 88 cents at 60.95. Meanwhile, the heating oil market posted a low of 168.20 early in the session and never looked back as it continued to trend higher. The market rallied to 170.50 following the release of the DOE report showing a larger than expected draw in distillate stocks. It retraced some of its gains only to bounce back higher ahead of the close. It traded to a high of 172.70 and settled up 4.34 cents at 172.50. The RBOB market opened up \$1.03 at 171.50 in follow through buying seen in overnight trading in light of the refinery news and the pipeline problem. The market traded to a low of 171.00 but quickly bounced off that level and rallied to a high of 176.00 ahead of the close. It settled up 5.01 cents at 175.48.

The oil market is seen retracing some of its sharp gains early in the session before it positions itself ahead of the weekend. The market will remain headline driven following the IAEA's report showing that Iran had failed to comply with the UN Security Council's demand that it halt its nuclear program. It remain to be seen whether sanctions against Iran would be stiffened. The market is also seen holding its support ahead of the weekend following the larger than expected draws reported in product stocks. The market is seen finding support at 60.40 followed by 59.75. More distant support is seen at its previous

lows of 58.30, 57.80 and 57.20. Meanwhile resistance is seen at its high of 61.25, 61.35 and 62.00.

Technical levels		
	Levels	Explanation
CL 60.95, up 88 points	Resistance	61.35, 62.00
		61.25
	Support	60.40, 59.75
HO 172.50, up 4.34 cents		58.30, 57.80, 57.20
	Resistance	174.20
		172.70
RB 175.48, up 5.01 cents	Support	171.15, 169.10, 168.20
		164.10
	Resistance	176.96
	176.00	
	Support	172.00, 171.00
		164.60