



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR FEBRUARY 27, 2007**

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Iran's Foreign Minister Manouchehr Mottaki said Iran would never suspend its uranium enrichment as demanded by the west. He said suspending uranium enrichment was an illegal and illegitimate demand. Officials from the five permanent members of the Security Council plus Germany who met on Monday to work on a UN resolution said they were committed to a negotiated resolution to the standoff. Britain's Prime Minister Tony Blair said Iran was making a big miscalculation with its defiance. US State Department spokesman Sean McCormack said the world powers would hold phone conversations on Thursday to discuss elements of a new resolution following their meeting on Monday. French Foreign Minister Philippe Douste-Blazy said military strikes on Iranian atomic sites were absolutely not an issue. China's Foreign Ministry spokesman Qin Gang renewed China's call for

#### **Market Watch**

Societe Generale stated that oil prices may increase 4.2% to \$64.15/barrel amid hedge fund buying and an increase in US demand.

China's stocks saw a decline not seen in 10 years on concern that a government crackdown on investments with borrowed money would end a rally that has driven benchmarks to records. Economic growth in China, which consumes about 9% of the world's oil, has pushed prices higher this decade. An analyst stated that a slowdown in China would have a ripple effect through the oil market. There are already signs of lower demand growth in the US, European and elsewhere. Orders placed with US factories for durable goods fell more than forecast in January by 7.8%.

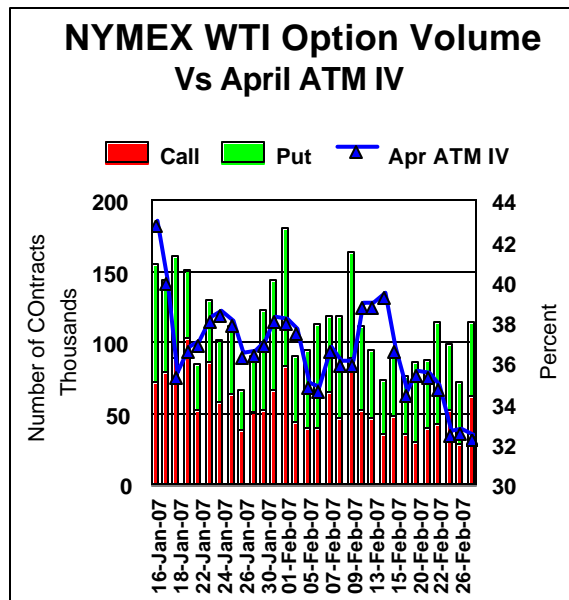
Analysts have stated that hedge fund activity contributed to the fall in oil prices from a record of \$78.40 in July last year to a low of \$49.90/barrel in January. However pension funds, insurance companies and other institutional investors have likely remained in the commodities markets in light of their long term horizons. They take months or even years to enter a new market and probably take just as long to leave. An analyst stated that once they have invested, even a negative performance would not see them leave immediately, since they rebalance portfolios on a quarterly or annual basis and they may even inject more money if prices are low.

An official at Brazil's Inter-American Ethanol Commission said the US tariff on ethanol imports sent a bad political signal, if the US government wanted greater biofuels cooperation with Brazil. He said the end of the tariff would be a favorable political gesture. US President George W. Bush is scheduled to visit Brazil next week to discuss greater cooperation between Brazil and the US on ethanol production and trade in the Americas.

The UK's Met Office reported that the country has had its second warmest winter on record, with a mean temperature of 41.8 degrees Fahrenheit. All three winter months saw above average temperatures with January recording its second highest UK wide temperature, reaching 43 degrees Fahrenheit. Separately, the German weather service said Germany has registered its warmest winter on record, with temperatures more than four degrees above average. Switzerland was also having its warmest winter.

diplomacy and peaceful negotiation.

Separately, Israeli Strategic Affairs Minister Avigdor Lieberman on a visit to Russia to discuss further sanctions against Iran said he was leaving the country feeling more optimistic. He said he believed Russia had a correct view of the situation. Neither Israel nor the US has ruled out military force on Iran, although the US said its priority was to reach a diplomatic solution. He said the last thing Israel was interested in was an escalation or some military action against Iran.



Nigeria's Oil Minister Edmund Daukoru said OPEC was unlikely to cut production at its next meeting in March. However he added that there was a possibility it would opt for a small cut.

The IEA Executive Director Claude Mandil said non-OECD countries are expected to be the driving force for oil demand in the coming years. He said China's oil demand is expected to increase to 9 million bpd from the current level of 3 million bpd by 2030. He said the deferred investment scenario could lead to a price increase amid the falling production from OPEC members. Meanwhile an analyst at the Center of Global energy Studies said he expected to see a 10% fall in oil prices by 2012.

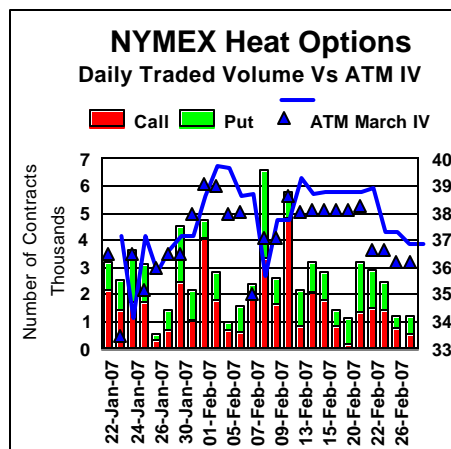
The death toll in a militant attack on French tourists in Saudi Arabia increased to four on Tuesday after a French teenager died from bullet wounds. The boy's father was among three French expatriates working in Saudi Arabia, who were shot dead during a desert trip on Monday in what appeared to be the first attack by suspected al Qaeda militants on foreigners in three years.

White House spokesman Tony Snow expressed hope that Iran and Syria would play constructive roles in a planned regional conference on Iraq. However he cast doubt on chances for any bilateral talks with Iran during the conference.

Nigerian police moved into two communities in the oil producing state of Bayelsa after villagers clashed over who should get jobs in a nearby oil rig. Youths from the villages of Liama and Egweama started fighting last Saturday. Representatives from both communities and from Emerald Resources, the company that has been drilling in the area, are scheduled to hold talks on Wednesday.

**Refinery News**

The 250,000 bpd Bengal Pipeline, which was shut on January 31 when a leak was found, has been undergoing repairs. However no date has been set for its restart. Meanwhile, Colonial Pipeline said area refineries have alternative means of transporting product through other pipelines and waterborne barges.



The US Coast Guard said ship traffic along the Houston Ship Channel was halted early Tuesday due to fog. Twenty-four ships including 16 tankers were waiting to transit the channel. Fifteen ships were waiting to enter the channel and nine were waiting to depart.

NYMEX Petroleum Options Most Active Strikes for February 27, 2007								
Symbol	Month	Year	Call/Put	Strike	Exp Date	Settle	Volume	IV
LO	5	7	C	70	04/17/2007	0.66	9,412	31.30
LO	6	7	P	55	05/17/2007	0.87	5,205	33.53
LO	5	7	C	65	04/17/2007	1.82	4,106	30.84
LO	6	7	C	80	05/17/2007	0.29	4,071	32.45
LO	12	7	C	100	11/13/2007	0.33	3,376	28.51
LO	12	7	P	50	11/13/2007	0.97	2,750	30.69
LO	6	7	P	50	05/17/2007	0.29	2,725	35.22
LO	5	7	P	48	04/17/2007	0.06	2,640	36.17
LO	5	7	C	80	04/17/2007	0.08	2,326	33.94
LO	12	7	C	80	11/13/2007	1.85	2,278	27.28
LO	6	7	C	65	05/17/2007	2.98	2,166	31.26
LO	2	8	C	70	01/16/2008	5.02	2,050	26.82
LO	5	7	P	55	04/17/2007	0.52	1,962	33.27
LO	6	7	C	75	05/17/2007	0.61	1,865	31.09
LO	4	7	C	62	03/15/2007	1.4	1,774	32.22
LO	6	7	P	45	05/17/2007	0.08	1,650	37.30
LO	12	7	P	60	11/13/2007	3.3	1,650	29.10
LO	4	7	P	60	03/15/2007	1.03	1,616	32.79
LO	4	7	C	58	03/15/2007	3.93	1,578	33.60
LO	4	7	C	59	03/15/2007	3.17	1,528	33.23
LO	4	7	C	53	03/15/2007	8.49	1,527	38.51
LO	4	7	C	54	03/15/2007	7.52	1,525	36.89
LO	5	7	P	49	04/17/2007	0.08	1,352	35.38
LO	4	7	P	57	03/15/2007	0.31	1,314	33.91
LO	5	7	P	62.5	04/17/2007	2.74	1,200	30.96
OB	4	7	C	1.9	03/27/2007	0.0504	543	35.45
OB	4	7	P	1.79	03/27/2007	0.0444	471	34.99
OB	6	7	P	1.76	05/25/2007	0.0642	229	31.92
OB	5	7	C	1.9	04/25/2007	0.079	207	32.76
OB	5	7	C	2	04/25/2007	0.0455	201	32.80
OB	4	7	C	2	03/27/2007	0.0234	200	35.99
OB	6	7	C	1.93	05/25/2007	0.0899	180	31.99
OB	7	7	C	2	06/26/2007	0.0886	177	32.61
OB	7	7	C	2.06	06/26/2007	0.073	176	33.18
OH	9	7	C	2	08/28/2007	0.0921	300	30.59
OH	4	7	P	1.73	03/27/2007	0.0516	200	36.41
OH	4	7	P	1.78	03/27/2007	0.0756	100	36.34
OH	4	7	P	1.68	03/27/2007	0.0335	100	36.61
OH	5	7	C	1.87	04/25/2007	0.0587	100	36.11
OH	5	7	P	1.68	04/25/2007	0.0598	100	35.88

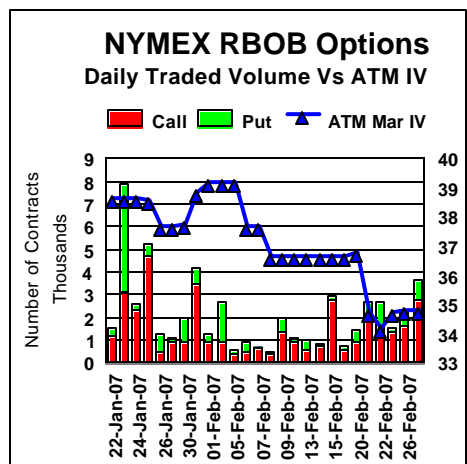
BP Plc has cut production on a 100,000 bpd fluid catalytic cracking unit at its 260,000 bpd refinery in Carson, California by 30%. The unit is expected to continue operating at reduced rates through the end of the week. BP's reduction was not seen affecting its ability to supply its customers.

Valero Energy Corp said that partial production should start at its McKee refinery in Sunray, Texas refinery by early April following the completion of repairs. A fire erupted at the 170,000 bpd refinery on February 16 forcing the entire refinery to shutdown. It said the refinery could be restarted at 85,000 bpd of crude throughput in early April, bringing fuel production to 55,000 bpd of gasoline and 20,000 bpd of distillates.

Shell Canada said its 130,000 bpd Montreal refinery was resuming full operations this week. It said minor equipment problems earlier this month had cut production of gasoline and other refined products but declined to specify how much it had cut production.

According to a Reuters survey, Asian oil refiners are expected to take 4.4% of capacity offline during the second quarter, down from 5.2% a year ago. An average of 1.076 million bpd of crude distillation capacity is scheduled to shutdown for maintenance. Meanwhile in Northwest Europe, more than 7% of refining capacity is being taken offline in March for routine work.

Russia's Energy Ministry stated that Russia has invited Japanese companies to take part in Rosneft's plan to build a refinery on Russia's Pacific coast. Rosneft is planning to build a \$5-7 billion refinery with a capacity of 20 million tons/year or 400,000 bpd at the end of Russia's planned Asia pipeline.



Japan's Cosmo Oil Co Ltd is expected to export 90,000 tons of ultra low sulfur gas oil for March loading.

According to a final export schedule by Russia's Transneft, Russia is expected to keep its March exports unchanged at about 3 million bpd. Russia's port of Primorsk is expected to cut its loadings to 1.38 million bpd from 1.52 million bpd in February due to pipeline maintenance. Exports from Russia's Black Sea port of Novorossiisk is expected to increase by 50,000 bpd to 930,000 bpd.

Turkey's Tupras said it aimed to increase product sales to 26.3 million tons in 2007. The company's CEO, Yuvuz Erkut said the company's diesel production may increase to between 12 million tons and 13 million tons within five years.

### Production News

Total's chairman Thierry Desmarest said the company feared Venezuela's drive to take over heavy oil projects run by foreign oil companies in the Orinoco belt could lead to operational problems. Venezuela's President Hugo Chavez on Monday ordered by decree the seizure of oil projects run by foreign oil companies in the Orinoco River region. He decreed a law to proceed with the nationalization that would see PDVSA take at least a 60% stake in the projects. The government is expected to publish the law in the government's official gazette shortly and the companies would have four months from then to negotiate terms and conditions with PDVSA to decide whether they would take part in new joint ventures as minority partners.

Angola's crude exports for April were revised up to 1.58 million bpd, up 60,000 bpd from previous estimates after plans for a temporary shutdown of the Girassol oilfield were postponed. April's loading program is however expected to be lower than the previous month's record of 1.6 million bpd.

Norway's DNO said its oil production increased to 12,854 bpd in January and is expected to produce 26,000 bpd by the end of 2007.

China National Petroleum Corp said it hoped to keep production at the Daqing oilfield at about half of current levels in 50 years, far above international analysts' estimates. It said it would pump 20-25 million tons of oil and gas combined by 2060 compared with 43.4 million tons last year.

Japan is expected to increase its production of ethanol made of domestic biomass to about 6 million kiloliters/year by 2030. The target, which amounts to about 38 million barrels, is equivalent to 3.6 million kl of gasoline, or about 6% of Japan's current gasoline demand a year. In a report to Japan's Prime Minister Shinzo Abe, the farm ministry and other ministries called for work on ethanol technology and adjustments in distribution and other infrastructure. It also proposed a possible change in taxation to encourage production and usage of ethanol.

OPEC's news agency reported that OPEC's basket of crudes increased further to \$56.94/barrel on Monday from \$56.41/barrel on Friday.

## Market Commentary

The oil market gapped lower from 60.65 to 60.25 and quickly posted a low of 60.10 following a sharp sell off in China's stock market, which raised concerns over the country's economic growth. China's stocks saw the largest sell off in 10 years. The crude market however bounced off its low and backfilled its gap amid the strength in the product markets, particularly the gasoline market. The oil market rallied to a high of 62.25 amid reports of refinery problems. It later settled in a sideways trading pattern before a late bout of selling pushed the market to 61.25 on the close as traders positioned themselves ahead of Wednesday's release of the weekly petroleum stock reports. It settled up just 7 cents at 61.46. Volume in the crude market was good with 278,282 lots booked on Globex. The heating oil market posted a low of 173.50 on the opening but quickly bounced off that level and retraced its losses. The market extended its gains to 3.63 cents as it rallied to a high of 179.25 before it retraced its gains ahead of the close. It settled up 2.31 cents at 177.93. The RBOB market settled up 3.84 cents at 181.61 after it rallied to a high of 182.35. The market bounced off a low of 176.00 and extended its gains more than 4.5 cents amid the refinery problems. BP cut its rate on its 100,000 bpd fluid catalytic cracking unit at its Carson, California refinery and is expected to remain at reduced rates through the end of the week. Volumes in the product markets were good with 47,385 lots booked in the heating oil market and 46,890 lots booked in the RBOB market.

The option market today saw strong interest in out of the money crude calls with \$70 and \$80 calls strikes as well as the December \$100 strike again on traders radar screens. Implied volatilities though continued their trend of basically contracting over the past two weeks.

The crude market sold off more than a dollar in overnight trading following the open outcry close as the US stock market fell sharply in the wake of falling equities in China. The Dow Jones Industrial average fell more than 500 points late in the day, prompting further selling in the oil markets. The oil market will likely continue to retrace today's earlier gains amid the concerns over the declining markets. The market may however find some support as the weekly petroleum stock reports are expected to show builds in crude stocks of 1.5 million barrels, draws in distillate stocks of 2.5 million barrels and draws in gasoline stocks of close to 2 million barrels. The market will also be driven by the expiration of the March product contracts on Wednesday. The crude market is seen finding support at 61.25 followed by 60.10.

More distant support is seen at 59.75 and 58.30.

Meanwhile resistance is seen at 62.25, 62.35 and 62.95.

Technical levels		
	Levels	Explanation
CL 61.46, up 7 cents	<b>Resistance</b>	62.35, 62.95
		62.25
	<b>Support</b>	61.25, 60.10
HO 177.93, up 2.31 cents		59.75, 58.30
	<b>Resistance</b>	179.40, 181.50
	<b>Support</b>	179.25
RB 181.61, up 3.84 cents		173.50
	<b>Resistance</b>	172.80, 168.20
	<b>Support</b>	183.68
	182.35	Basis trendline
	176.00	Tuesday's high
	175.25, 173.00	Tuesday's low
		Previous lows