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ENERGY RISK MANAGEMENT

Howard Rennell, Pat Shigueta &
Zachariah Yurch

(212) 624-1132 (888) 885-6100

www.e-windham.com

ENERGY MARKET REPORT FOR MARCH 13, 2007

OPEC's Secretary General Abdullah el-Badri said OPEC was set to leave its oil production unchanged when it meets on Thursday. He said OPEC's compliance with its two rounds of supply cuts was improving. OPEC President Mohammed al-Hamili said that members were showing strong compliance on its output cuts. He said compliance with output cuts was behind the recent fall

Market Watch

Lloyds Marine Intelligence Unit Apex said Iran reduced the number of vessels it uses to store crude oil in the Persian Gulf to three Very Large Crude Carriers. In January, market participants said they thought Iran had as many as 10 VLCCs moored around Kharg Island, storing up to 20 million barrels of crude. Lloyds said just three National Iranian Tanker Co owned or chartered VLCCs were used as floating storage.

IMEX Holding Co said it was setting up an energy trading exchange in Qatar. The International Mercantile Exchange would trade oil swaps, futures and options for international oil companies. It said the exchange would start operating by the end of the year.

Ongoing negotiations between Chevron Corp and Venezuela's PDVSA would influence whether and how the US oil major operates in the country going forward. Chevron's 2007 production level is expected to fall by 90,000 bpd due to changes in Venezuela.

in world oil inventories. Meanwhile, Iran's OPEC governor Hossein Kazempour Ardebili said there was no need for OPEC to cut its production further at its meeting on Thursday if OPEC members complied with their previous cuts. He said the level of compliance in February was about 70% and added that the market was moving towards balance. He said the world oil market would remain stable in 2007 for both producers and consumers, with prices between \$55-\$65/barrel, if OPEC members comply with their output cuts. Qatar's Oil Minister Abdullah bin Hamad al Attiyah said he did not expect OPEC to change its production quotas. He said current signals from oil markets were confusing, noting the gap between the Brent and WTI futures contracts. Kuwait's Oil Minister Sheikh Ali al Sabah also stated that OPEC was likely to keep its oil output unchanged. A top Libyan oil official said the oil market was balanced and OPEC should hold off making any change to production levels.

OPEC's head of research, Hasan Qabazard, said crude supplies available now were enough to cover the market's needs but that demand for crude was expected to increase by 1.3 million bpd on the year in 2008. He said he believed strategic and commercial inventories remained at high levels.

The IEA kept its 2007 world oil demand forecast steady at 86 million bpd, up 1.8% on the year. It said the preliminary data suggested that OECD stocks fell by over 1.26 million bpd over the first two months of the year and could be heading for the largest first quarter stock draw in 10 years. It stated that stock trends and prices were signaling that higher OPEC exports would be needed in the months ahead. It estimated demand for OPEC oil in the range of 30.7 million bpd to 31.6 million bpd in 2007. The IEA estimated that the ten OPEC members produced 26.76 million bpd in February, down 365,000 bpd on the month. Total OPEC production was estimated at 30.2 million bpd in February, down 125,000 bpd from January. In regards to China's oil demand, it said the country's oil demand last year averaged 7.2 million bpd, up 6.9% on the year. It kept its estimate for total oil product demand growth in China this year unchanged at 6.1% to 7.6 million bpd. The IEA revised up its estimates for world offline refinery capacity in March as refineries in North America were shutdown due to glitches during the maintenance season. It forecast world offline capacity in March at 3.5 million bpd, up 300,000 bpd from its previous estimate. Offline capacity is expected to hold at or be close to this level for the next couple of months as increasing runs in Europe and North America coincide with the start of maintenance season in Asia. The IEA also stated that greater state control of energy resources and the temptation to siphon off revenues threaten to cut investment and keep prices high.

UN diplomats said they have made substantial progress in reaching a consensus on further sanctions against Iran over its nuclear activities. However Russia and China have continued to oppose any further sanctions. China was seeking clarification on a few points in a proposed new package of sanctions against Iran. The five permanent members of the UN Security Council are expected to present the package to the 10 non-permanent council members later on Tuesday. Russia has urged Iran to fulfill the UN demand to freeze its uranium enrichment program and to cooperate with the UN's IAEA. Russian officials made the call during two days of talks with a deputy secretary of Iran's Supreme National Security Council, Ali Hosseinitash. Meanwhile, Iranian TV has reported that Iran's President Mahmoud Ahmadinejad was seeking to address the UN's Security Council in person to explain Iran's nuclear program.

The Israeli and US delegations to the Conference on Disarmament walked out on Tuesday during an address by Iran's Foreign Minister Manouchehr Mottaki. Iran's Foreign Minister accused Israel and the US of posing the main threats to the security of the Middle East. In regards to Iran's nuclear program, Iran's Foreign Minister said Iran was prepared to discuss the suspension of uranium enrichment activities if the UN Security Council closed its file on Iran's nuclear program. He said Iran was committed to finding a diplomatic solution to the standoff over its nuclear program.

A Nigerian militia leader whose release is demanded by rebel groups in the Niger Delta saw his application for bail shelved on Tuesday until after the elections next month. Community leaders from the Ijaw ethnic group had been trying to broker a deal with the government to release him before the elections in an effort to quell unrest in the Niger Delta. Mujahid Dokubo-Asari's arrest in September 2005 was one of the many factors that increased tensions in the region.

Refinery News

According to the Houston Pilots Association, the Houston Ship Channel reopened to tanker traffic at 1 pm EDT after it was closed earlier in the morning. It said a backlog of nine ships was cleared.

Valero shut a fluid catalytic cracking unit at its St. Charles, Louisiana refinery.

Chevron Corp's maintenance at its San Francisco area refinery would be extended by three weeks following a fire.

Chevron Corp said it was planning to conduct expansion work at six refineries in the next few years. Chevron's 260,000 bpd El Segundo, California refinery would be upgraded to run heavy sour crude in 2007 and have a capacity expansion in 2009 while its 240,000 bpd Richmond, California refinery would be upgraded to run higher volumes of sour crude in 2008 and have the addition of a continuous catalytic reformer in 2009. Meanwhile, its 330,000 bpd Pascagoula refinery is expected to undergo a capacity expansion in 2008. The refinery is also expected to have a continuous catalytic reformer unit installed in 2009. Chevron is also expected to invest in its technology to process Caspian crudes at its Pembroke refinery in Wales.

Sinopec Corp's Guangzhou refinery has been processing 200,000 bpd in March, up 28% on the month as it starts its new units. In April, the refinery is expected to increase its throughput to near full rates of about 1 million tons or 243,000 bpd.

Production News

Royal Dutch Shell said production of Mars crude reached about 339,000 bpd in January before falling to an average of 322,000 bpd in February.

An Iraqi oil official said production from southern oil fields during the first 10 days of March increased to 2 million bpd, up from 1.9 million bpd in February. Output from Iraq's northern oil fields totaled 175,000 bpd, down from 190,000 bpd in the previous month. Iraq's oil exports during the first 10 days of March stood at 1.7 million bpd, up 9% on the month. The official said the increase in exports was due to an improvement in weather conditions at Iraq's southern crude oil export terminals. In February, Iraq's oil exports stood at 1.56 million bpd, up 20.9% on the month.

The Norwegian Petroleum Directorate said Norway's oil production increased to 2.43 million bpd on average in February from an adjusted 2.37 million bpd in January.

Woodside Petroleum Ltd said it is expected to resume production at its 7,000 bpd Legendre field on Wednesday after it was shutdown due to cyclones. Meanwhile, Santos Ltd said it is expected to resume production at its 55,000 bpd Mutineer-Exeter field off the coast of Western Australia on Wednesday.

Trade sources stated that Iran has cut its official selling prices for April loading heavy crude to buyers in the Mediterranean. The April official selling price for Iranian heavy loading from Iran's Kharg Island terminal was cut by 35 cents/barrel to BWAVE minus \$8.35/barrel from minus \$8.00 for March loading. It also cut prices for Iranian heavy crude loading from the Egyptian terminal for Sidi Kerir by 20 cents/barrel to BWAVE minus \$7.00.

OPEC's news agency reported that OPEC's basket of crudes fell further to \$57.27/barrel on Monday from \$58.20/barrel on Friday.

Market Commentary

The oil market opened higher following the release of the IEA report, which stated that inventories were expected to see a large decline for the first quarter. It said the stock declines and prices were signaling that higher exports would need in the months ahead. The market opened 59 cents at 59.50 and rallied to a high of 59.95 early in the session. However the market, which failed to test the 60.00 level, erased its gains and held some support at 59.20. The oil market later breached that level and never looked back as it extended its gains to \$1.16 as it traded to a low of 57.75 late in the session. The market ended sharply lower, down 98 cents at 57.93 as the market was dragged lower by the fall in the equities markets. The market was also pressured amid expectations that the weekly petroleum stock reports would show builds in crude stocks. Volume in the crude market was excellent with over

434,764 lots booked on Globex during the open outcry session. The heating oil market gapped higher from 169.90 to 170.80 and traded to a high of 172.70 early in the session. However the market gave erases its gains and backfilled its gap as it sold off to a low of 168.50 late in the session. The heating oil market settled up 79 points at 169.02. Meanwhile, the RBOB market also gapped higher from 192.80 to 193.40 and rallied to a high of 195.50 amid the refinery problems. The market erased its gains and sold off to a low of 192.20 amid the weakness in the crude market. It however bounced off its low and settled up 2.13 cents at 193.18. The product markets settled in positive territory amid the expectations that the weekly petroleum stock reports would show draws. Volumes in the product markets were good with 53,508 lots booked in the heating oil market and 72,914 lots booked in the RBOB market.

The oil market will likely retrace some of its sharp losses early in the session after the market sold off sharply amid the fall in the equities market. The oil will likely find some support as the weekly petroleum stock reports are expected to show builds in crude stocks of about 1.5 million barrels in crude stocks and draws in distillate stocks and gasoline stocks of over 2 million barrels each. The market is seen finding support at its low of 57.75, 57.20 and 57.15. More distant support is seen at 56.70 and 55.93.

Meanwhile resistance is seen at 59.00, 59.50 and its high of 59.95. More distant resistance is seen at 61.72 and 62.30.

Technical levels		
	Levels	Explanation
CL	Resistance 61.72, 62.30	Previous highs
	59.00, 59.50, 59.95	Tuesday's high
	Support 57.75	Tuesday's low
	57.20, 57.15, 56.70, 55.93	Previous low, 50% (52.00 and 62.40), Previous low, 62%
HO	Resistance 176.35, 177.80, 178.80	Previous highs
	171.00, 172.70	Tuesday's high
	Support 168.50	Tuesday's low
	167.30, 164.25, 163.70, 160.82	Previous low, 50% (149.70 and 178.80), Previous low, 62%
RB	Resistance 198.07	Previous high
	193.80, 195.50	Tuesday's high
	Support 192.20	Tuesday's low
	187.00, 185.90, 181.50, 181.00	Previous lows, Double bottom