



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR MARCH 20, 2007**

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Qatar's Oil Minister Abdullah al-Attiyah said that oil demand would be depressed in the second quarter for seasonal reasons but would be higher during the rest of the year.

#### Market Watch

Saudi Arabia's Minister of Petroleum and Mineral Resources Ali Naimi met the US Assistant Secretary of Commerce and Director General of the Foreign Trade Commission Israel Hernandez in Riyadh on Tuesday. During the meeting they discussed bilateral cooperation between the two countries.

Meanwhile, Libya's Oil Minister Shokri Ghanem said OPEC was keeping a close watch on the world oil market. He said OPEC would hold talks if prices fell. He did not rule out further action on supply before September, when ministers are scheduled to meet again. Iran's Oil Minister Kazem Vaziri-Hamaneh made similar comments, saying that OPEC would hold an emergency meeting if prices fell.

US Energy Secretary Sam Bodman said he was not uncomfortable with OPEC's recent decision to keep its current supply restraints in place. OPEC agreed last week to maintain its supply cuts of 1.7 million bpd in place until its next meeting, scheduled for September. Separately, US Energy Secretary Sam Bodman submitted a draft legislation to the Senate Energy Committee to increase the SPR's capacity from 1 billion barrels currently authorized by the 2005 Energy Policy Act to 1.5 billion barrels. The Department of Energy last week started the process of filling the reserve to its current capacity, issuing a solicitation to buy up to 4 million barrels of crude for May delivery into the SPR.

The IEA's Executive Director Claude Mandil said OPEC needs to increase its production to address undersupply in oil markets. He however declined to specify by how much OPEC should increase its production. He said with supplies remaining tight, markets were expected to remain volatile and prices would likely remain too high.

President George W. Bush said lawmakers need to address the US' dependence on foreign oil by passing a bipartisan energy bill before June. He said the US could cut its dependence on foreign oil by cutting gas consumption by 20% over 10 years. His plan would increase the supply of alternative and renewable fuels to 35 billion gallons by 2017. He said investing in new technologies would increase the country's energy security and provide a new market opportunity for US automakers.

Germany's Chancellor Angela Merkel and China's Premier Wen Jiabao agreed on the need for rapid approval of a UN draft resolution on Iran's nuclear program. A draft resolution introduced to the UN Security Council would ban all Iranian arms exports and freeze financial assets abroad of 28 individuals, groups and companies. However South Africa, the current chair of the Security Council,

has called for key sanctions to be dropped from the draft document and urged more political negotiations with Iran.

NYMEX Petroleum Options Most Active Strikes for March 20, 2007								
Symbol	Month	Year	Call/Put	Strike	Exp Date	Settle	Volume	IV
LO	6	7	P	55	05/17/2007	0.96	6,237	32.44
LO	6	7	P	50	05/17/2007	0.27	3,776	34.41
LO	5	7	C	59.5	04/17/2007	1.81	3,080	29.63
LO	6	7	P	60	05/17/2007	2.65	2,724	31.18
LO	5	7	P	59.5	04/17/2007	2.06	2,607	29.66
LO	5	7	P	53	04/17/2007	0.26	2,592	32.51
LO	5	7	P	57	04/17/2007	1	2,444	30.00
LO	5	7	P	54	04/17/2007	0.38	2,242	32.02
LO	7	7	P	50	06/15/2007	0.38	2,169	32.48
LO	5	7	C	68	04/17/2007	0.1	2,122	29.65
LO	6	7	P	56	05/17/2007	1.2	2,061	32.11
LO	6	7	C	65	05/17/2007	1.35	1,727	30.77
LO	6	7	P	45	05/17/2007	0.06	1,661	36.92
LO	5	7	C	61	04/17/2007	1.2	1,326	29.50
LO	6	7	C	70	05/17/2007	0.46	1,283	30.61
LO	6	7	C	73	05/17/2007	0.24	1,175	31.11
LO	6	7	C	74	05/17/2007	0.2	1,172	31.54
LO	6	7	P	49	05/17/2007	0.2	1,150	34.75
LO	10	7	P	53	09/17/2007	1.39	1,100	30.73
LO	6	7	C	66	05/17/2007	1.1	1,050	30.66
LO	12	7	C	64.5	11/13/2007	5.46	910	29.00
LO	12	7	P	64.5	11/13/2007	5.93	910	29.07
LO	5	7	C	63.5	04/17/2007	0.55	900	29.51
LO	6	7	C	62	05/17/2007	2.36	889	31.05
LO	7	7	C	66	06/15/2007	1.91	800	30.19
LO	12	7	P	61.5	11/13/2007	4.51	800	29.39
LO	6	7	C	67	05/17/2007	0.9	797	30.72
LO	5	7	P	59	04/17/2007	1.81	767	29.76
LO	5	7	C	70	04/17/2007	0.04	750	29.52
LO	6	7	P	52	05/17/2007	0.47	750	33.73
LO	9	7	C	63.5	08/16/2007	4.29	750	29.58
LO	9	7	P	63.5	08/16/2007	4.94	750	29.65
OB	6	7	C	2	05/25/2007	0.0619	855	35.18
OB	9	7	C	2	08/28/2007	0.0887	617	32.22
OB	6	7	C	1.95	05/25/2007	0.0769	251	34.72
OB	5	7	C	1.72	04/25/2007	0.1922	250	35.80
OB	6	7	C	1.85	05/25/2007	0.1176	250	34.11
OB	6	7	P	1.85	05/25/2007	0.0951	250	34.07
OB	5	7	C	2	04/25/2007	0.0427	137	35.65
OB	5	7	P	1.91	04/25/2007	0.0918	135	34.76
OB	8	7	C	1.9	07/26/2007	0.1115	126	30.95
OB	6	7	P	1.7	05/25/2007	0.0399	100	34.68
OH	5	7	P	1.5	04/25/2007	0.0156	176	34.91

Gulf governments have been planning to build oil pipelines that would bypass the Strait of Hormuz, aiming to avoid possible Iranian threats to world oil shipments. If built, the two pipelines could transport as much as 6.5 million bpd of oil around the strait or about 40% of the daily exports currently shipped through the Strait of Hormuz. Construction of the first pipeline is expected to begin this year while the second, which would have a capacity of 5 million bpd, was still under discussion and could take 10 years to build. Ministers from the six Gulf Arab countries are scheduled to discuss the pipeline during one of two summits planned this year.

According to the EIA, ethanol imports in January stood at 1.25 million barrels or 33,000 bpd, up 3.9% on the month. The majority of the imports were bound for East Coast ports. It stated that twelve of the East Coast shipments, about 612,000 barrels, were received in New Jersey compared with 530,000 barrels in the same amount of shipments in December. Philadelphia received one shipment of 11,000 barrels, down from 31,000 barrels in December.

The DOE said it plans to add

4 million barrels of crude to the SPR in May, but will attempt "to minimize any impact on the market".

## Refinery News

Flint Hills Resources LP's 50,000 bpd crude distillation unit expansion project at its 280,000 bpd Pine Bend refinery in Rosemount, Minnesota is expected to be completed by fall 2007.

Russia's Lukoil said it expected to restart a vacuum gas oil unit at its Volgograd refinery in February next year following a fire. The fire damaged an 80,000 bpd primary processing unit at its 190,000 bpd refinery.

Bahrain Petroleum Co started its new 60,000 bpd hydrocracker complex at its Sitra refinery. Flaring at the new unit started on Monday while high sulfur vacuum gasoil feedstock was due to be added to the hydrocracker in the second half of May.

Brazil's Petrobras is still in talks to buy a stake in a refinery in Okinawa with a capacity of 60,000 bpd.

### **Production News**

Workers at Smit International NV ended their strike on Tuesday morning. The workers had resumed their strike on Saturday over a dispute with management over a new collective labor agreement and pay.

The port authority said a seven day strike at France's Fos-Lavera oil and gas terminal in Marseille was blocking 33 ships from entering the terminal. The blocked ships included 23 oil tankers, 5 cargoes transporting chemical products, 3 gas tankers and 3 barges.

Egypt closed four of its Red Sea ports on Tuesday due to poor weather conditions. The increase in wind speeds made it difficult to say when the ports would reopen.

Workers at Esso Chad started a three day strike on Tuesday over pay. However the company said output was not affected. The workers have demanded a 15% pay increase. The workers are expected to return to work on Friday but have warned that they would strike again if their demands were not met.

Traders said Morgan Stanley was expanding its physical trading operations for oil products in Singapore by taking up storage space for gasoline. A trader said Morgan Stanley recently took over the 50,000 cubic meters of gasoline storage space.

Azerbaijan's Socar announced two tenders for a total of 1.450 million barrels of crude oil. One tender was for 1 million barrels of Azeri light crude for loading at Turkey's port of Ceyhan on April 15-17 while the second tender was for 450,000 barrels of Urals crude loading on April 24-25 at the Russian Black Sea port of Novorossiisk.

According to China International Chemical Consulting Corp, China's diesel demand is expected to grow by 4.8% per year during the 2010-2015 period, down from an average 7% from 2007 to 2010. China is expected to consume 153.6 million tons of diesel in 2010 and increase to 193.0 million tons in 2015.

South Korea's Korea National Oil Corp said the country's crude oil imports fell by 7.4% on the year to 69.85 million barrels in February. Domestic oil products demand in January increased by 5.4% to 64.75 million barrels.

India's Petroleum and Natural Gas Minister Murli Deora said the US has offered to help build strategic crude oil reserves in India. India is building strategic oil reserves at three locations in the south of the

country with combined capacity of 5 million metric tons. The facilities are expected to be completed by March 2012.

Indonesia has imposed the use of 0.35% sulphur diesel for all users from April, in a move that may accelerate a switch to cleaner fuel. This would eliminate logistical problems faced by Pertamina in segregating tankage for two different grades.

OPEC's news agency reported that OPEC's basket of crudes fell by 11 cents/barrel to \$56.62/barrel on Monday from \$56.73/barrel on Friday.

### **Market Commentary**

The April crude contract ended slightly higher after it retraced some of its earlier losses ahead of its expiration. The market sold off to an early low of 56.28 and settled in a sideways trading pattern for much of the day. The crude market however extended its losses to 42 cents as it posted a double bottom at 56.17 as traders liquidated their positions ahead of its expiration. The market bounced off that level and rallied to a high of 57.58 before it quickly erased most of its gains and settled up 14 cents at 56.73. Meanwhile the May crude contract settled down 45 cents at 59.25 after it sold off to a low of 59.15 late in the session ahead of Wednesday's release of the weekly petroleum stock reports, which are expected to show builds in crude stocks. Volume in the crude market was slightly better with 290,103 lots booked on the Globex during the open outcry session. The RBOB market bounced off a low of 193.75 and rallied early in the session to a high of 198.33 amid some refinery problems. The market erased its gains and traded back towards its low ahead of the close. It settled down 1.6 cents at 194.21. The heating oil market rallied to a high of 171.08 early in the session. It however

gave up its gains as it extended its losses to 2.18 cents at its low of 166.66 late in the session. It retraced some of its losses ahead of the close and settled down

<b>Technical levels</b>		
	<b>Levels</b>	<b>Explanation</b>
<b>CL</b> 59.25, down 45 cents	<b>Resistance</b>	60.34, 60.98, 61.12
		60.18
		May
	<b>Support</b>	59.15
	58.85, 58.54, 58.00, 56.64	Previous highs Tuesday's high Tuesday's low Previous lows, 50% (52.24 and 63.75), 62%
<b>HO</b> 166.87, down 1.97 cents	<b>Resistance</b>	173.68, 176.78
		169.25, 171.08
	<b>Support</b>	166.66
		164.46, 162.24, 160.45
		Previous highs Tuesday's high Tuesday's low 50% retracement(149.35 and 179.57), Previous lows
<b>RB</b> 194.21, down 1.6 cents	<b>Resistance</b>	202.53
		195.15, 196.00, 198.33
	<b>Support</b>	193.75
		190.30, 186.68
		Basis trendline Tuesday's high Tuesday's low Previous lows

1.97 cents at 166.87. Volumes in the product markets were good with 61,622 lots booked in the RBOB market and 39,647 lots booked in the heating oil market.

The oil market is seen holding its support ahead of the release of the weekly petroleum stock reports. The reports are expected to show builds in crude stocks of 1.5 million barrels and draws of 1.6 million barrels in RBOB stocks and draws of 1 million barrels in distillate stocks. The expected draws in product stocks will continue to support the market. The market is also seen holding its support as stochastics are trending sideways. The crude market is seen finding support at its low of 59.15 followed by 58.85, 58.54 and 58.00. Meanwhile resistance is seen at its high of 60.18 followed by 60.34, 60.98 and 61.12.