



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR DECEMBER 19, 2006

Kuwait's Undersecretary of Energy for Oil, Isa al-Oun defended OPEC's decision to cut an additional 500,000 bpd from production starting February 1, saying its decision had already restored some balance to an oversupplied market. He said OPEC based its decision on an outlook for 2007 showing that non-OPEC producers would be expected to pump additional amounts of oil into the market, leading to an excess of supply. He also reiterated a position often stated by Kuwaiti Energy Minister Sheikh Ali al-Jarrah al-Sabah that \$60/barrel was an acceptable price for producers.

Russia's Foreign Minister said a new draft UN Security Council resolution on Iran over its nuclear program largely met Russia's concerns and could become the basis of a consensus decision. He said they were counting on being able to come to a consensus decision that would prompt the Iranians to resume talks and provide full cooperation with the IAEA. French Foreign Minister Jean-Baptiste Mattei said he did not see a change in Russia's position but expressed cautious optimism about the chances for the resolution to be adopted this week.

Market Watch

Societe Generale said the energy and metals markets are expected to fall further in 2007 as projected increases in supply weigh on prices. It forecast US WTI crude to average \$57.50/barrel next year as higher output by countries outside OPEC offsets production cuts promised by OPEC.

The Pentagon has reportedly been planning a major buildup of Naval forces in and around the Persian Gulf. The buildup was being proposed as a response to what US officials view as increasingly provocative acts by Iran. Military official said the build up would take place after the first of the year, not to attack Iran but to discourage its leaders from spreading their Shi'ite revolution.

Refinery News

The Houston Pilots Association said the Houston Ship Channel was closed to shipping traffic on Tuesday due to persistent fog following an overnight respite that allowed pilots to clear some of the backlog of tankers. Meanwhile, A spokesman for the Sabine River Pilots Association, which operates the shipping channel into Port Arthur, Texas said Tuesday that the port had reopened and that a backlog of 16 vessels waiting to enter the port was being reduced. The Calcasieu ship channel at Lake Charles, Louisiana resumed operations. A four to six ship backlog on the Calcasieu channel that formed Monday was cleared.

Shell's 340,000 bpd Deer Park, Texas refinery continued to process crude at reduced rates due to shipping delays on the Houston Ship Channel. Vessel traffic to the refinery remained blocked.

Separately, it stated that a sulfur recovery unit at the refinery that was shut on December 14 was successfully restarted on Monday and was operating at normal rates on Tuesday.

Colonial Pipeline announced that it was allocating the first cycle of 2007 on its main line carrying diesel, jet fuel and heating oil. US Gulf Coast distillates differentials fell following the announcement. Ultra low sulfur diesel on Colonial's cycle 71 fell 5 cents to 1 cent over the NYMEX heating oil while on road diesel also fell about 5 cents to just under a cent over.

Chevron Corp announced that it completed an expansion of a fluid catalytic cracking unit at its 330,000 bpd Pascagoula, Mississippi refinery. The project expanded the catcracker by 16,000 bpd to 84,000 bpd and should increase the refinery's production of gasoline by 10% to 5.5 million gallons/day. Chevron said it expected to add another 500,000 gallons/day of gasoline production capacity by the end of the decade by building a new reformer unit, pending permits.

TEPPCO Partners LP agreed to build a 5.4 million barrel refined products tank farm to support the proposed expansion of Motiva's Port Arthur, Texas refinery. It would also construct a pipeline to connect the new storage facilities with its refined products terminal in Beaumont, Texas. The new terminal and pipeline are expected to be completed by mid-2009.

PetroChina started a new 110,000 bpd crude refining facility that is designed to process mostly Russian crude. It said it planned to operate the new crude facility at its Liaohe refinery at about 80% of its capacity in 2007.

India's Essar Oil Ltd started exporting oil products from its refinery in the western state of Gujarat. It exported its first cargo of 35,000 tons of vacuum gas oil. A company official said the shipment had been sold to BP.

Indonesia's Pertamina purchased 3.45 million barrels of crude in its tender for February arrival, down from 3.6 million barrels purchased for January arrival.

Production News

Russia's Energy Ministry stated that Russia was expected to produce 119 million tons or 9.692 million bpd of crude and gas condensate in the first quarter of next year, up from 116.5 million tons last year. It is expected to refine 53 million tons or 4.317 million bpd of crude and export 54.3 million tons or 4.422 million bpd to non-CIS countries in the first quarter of 2007. Deliveries to CIS countries are expected to total 9.6 million tons or 781,867 bpd. The ministry also stated that Russian refineries would produce 8.23 million tons of gasoline, 15.6 million tons of diesel, 15.2 million tons of fuel oil and 1.95 million tons of jet fuel. It is expected to export 1.38 million tons of gasoline, 9.14 million tons of diesel, 6.6 million tons of fuel oil and 300,000 tons of jet fuel in the first quarter.

Russia's Rosneft said it would see a third year of production growth in 2007, when its output is expected to increase by 9%. Its production is expected to total more than 130 million tons or 2.6 million bpd by 2010.

Iran's Oil Ministry reported that the tender for exploration and development of 17 oil blocks would be held next week.

Suncor Energy Inc said it was targeting average daily production of 260,000 bpd to 270,000 bpd from its oilsands operations in 2007.

Pemex said Mexico's crude oil production fell to 3.163 million bpd in November from 3.173 million bpd in October. Its crude exports increased to 1.788 million bpd from 1.68 million in October.

OPEC's news agency reported that OPEC's basket of crudes increased 1 cent to \$58.40/barrel on Monday.

Market Commentary

The oil market gapped lower from 62.10 to 61.95 and quickly posted a low of 61.80 as the market remained pressured by the weather forecasts calling for above normal temperature during the remainder of the year. The US National Weather Service forecast US heating demand would be about 25% below normal this week. The market also continued to trade lower amid reports that the Houston Ship Channel had reopened overnight. The oil market however bounced off its low and traded to 62.45, where it held some resistance. The January crude contract later rallied to a high of 63.45 ahead of its expiration at the close. It settled up 94 cents at 63.15. The February crude contract settled up 67 cents at 63.46. Volume in the crude market was light with 87,000 lots booked on the day. Crude volume on Globex was better with over 190,000 lots booked during the open outcry session. The heating oil market settled down 20 points at 171.87 after it traded lower early in the session in light of the weather forecasts. It gapped lower from 172.00 to 171.50 and sold off to a low of 170.15. However the market retraced its losses and rallied to a high of 174.00 amid the expectations the weekly petroleum stock reports would show draws in stocks. The market later gave up some of its gains ahead of the close. Meanwhile, the RBOB market also gapped lower from 167.25 to 165.50 as it continued to retrace its previous gains. The market however quickly bounced off its low and rallied to a high of 173.00 ahead of the close. It settled up 3.57 cents at 171.06. Volumes in the product markets were light 37,000 lots booked in the heating oil market and 23,000 lots booked in the RBOB market. Product volumes on Globex were better with 43,000 lots booked in the heating oil and 25,136 lots booked in the RBOB market during the open outcry session.

The oil market, which retraced its early losses, will likely remain supported amid the expectations that the weekly petroleum stock reports will show draws in crude stocks after fog kept the Houston Ship Channel closed most of last Thursday and Friday. The reports are also expected to show draws in distillate stocks. The crude market is seen finding support at 63.00 and its low of 62.40. More distant support is seen at 61.65, 61.50 and 61.05. Meanwhile resistance is seen at 64.00 followed by 64.15, 64.25 and 64.70. More distant resistance is seen at 65.05.

Technical levels		
	Levels	Explanation
CL 63.46, up 67 cents	Resistance 64.15, 64.25, 64.70, 65.05	Previous highs
	Support 64.00	Tuesday's high
HO 171.87, down 20 points	Resistance 63.00, 62.40	Tuesday's low
	Support 61.65, 61.50, 61.05	Previous lows
RB 171.06, up 3.57 cents	Resistance 175.60 to 175.90, 179.20	Opening gap (December 18), Previous high
	Support 174.00, 175.60-175.90	Tuesday's high
	Resistance 171.10, 170.15	Tuesday's low
	Support 169.15, 168.80	Previous lows
	Resistance 175.00, 176.75	Previous highs
	Support 173.00	Tuesday's high
	Resistance 170.00, 165.50	Tuesday's low
	Support 165.00 to 163.25	Opening gap (December 14)