



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR DECEMBER 20, 2006**

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Iran's Oil Minister Kazem Vaziri-Hamaneh said OPEC producers do not believe that oil prices below \$60/barrel are economical. He said any crude oil price below \$60/barrel was unfeasible. He also stated that OPEC did not want to see an abnormal increase in prices that would affect the economies of consuming countries.

Russia's Foreign Minister Sergei Lavrov said attempts by its western counterparts to ditch agreed principles in handling Iran's nuclear ambitions were blocking adoption of a UN Security Council resolution on sanctions against Iran. He said Russia was also alarmed by what it saw as attempts to hamper its economic cooperation with Iran and bring it under international control. The European draft would allow for a lifting of all sanctions if Iran fully complied with all council resolutions and IAEA demands. It would ban imports and exports of materials and technology relating to uranium enrichment, reprocessing and heavy water reactors as well as ballistic missile delivery systems.

#### **Refinery News**

The Houston Ship Channel was open Wednesday morning following a five hour closure on Tuesday evening. The backlog of vessels waiting stood at about 40. Meanwhile, Shell's 340,000 bpd Deer Park refinery continued to operate at reduced rates due to the crude delivery delays.

#### **DOE Stocks**

**Crude** – down 6.3 million barrels  
**Distillate** – up 1.2 million barrels  
**Gasoline** – up 1 million barrels  
**Refinery runs** – up 1.8%, at 90.7%

#### **Market Watch**

Iraqi officials have reached a tentative agreement on an oil law that would allow the regions to negotiate oilfield contracts with foreign investors but would allow the central government to have the final say. Iraq's northern Kurdish region has agreed to review contracts it has already signed with foreign oil companies. Sources close to the negotiations said Prime Minister Nuri al-Maliki signaled his approval of the draft. However it would still need the cabinet's approval. Sources stated that the law called for the formation of a national oil council that would have the authority to reject oilfield deals.

Al -Qaeda's Ayman al-Zawahri said it would continue to target the US and other Western countries so long as Muslims are under attack. He also dismissed US President George W. Bush's argument that combating terrorism could guarantee security and added that the US was scrambling to find an exit from the disasters in Afghanistan and Iraq.

Nippon Oil Corp is expected to refine about 3% less crude in January 2007 than a year earlier when it processed 5.5 million kl or 1.1 million bpd in January 2006. Last month, Nippon Oil said it planned to process 5.3 million kl or 1.08 million bpd of crude in December.

Iraq's Kirkuk oil stocks at the Turkish port of Ceyhan

increased to 3.5 million barrels after exports along the northern pipeline briefly resumed from December 17-18. A shipping agent said about 350,000 barrels of Kirkuk crude was pumped to Ceyhan during the restart.

**NYMEX Petroleum Options Most Active Strikes for December 20, 2006**

Symbol	Month	Year	Call/Put	Strike	Exp Date	Settle	Volume	IV
LO	8	7	P	57	07/17/2007	1.87	3,350	30.64
LO	6	8	C	80	05/15/2008	3.39	2,200	22.88
LO	4	7	C	64	03/15/2007	4.16	2,100	27.49
LO	7	7	P	66.5	06/15/2007	4.59	2,100	27.24
LO	4	7	P	65.5	03/15/2007	3.35	1,775	27.16
LO	4	7	C	65.5	03/15/2007	3.37	1,775	27.16
LO	2	7	P	60	01/17/2007	0.51	1,316	26.22
LO	2	7	P	56	01/17/2007	0.1	1,305	28.51
LO	3	7	P	52	02/14/2007	0.12	1,302	32.23
LO	4	7	C	67	03/15/2007	2.71	1,200	27.07
LO	3	7	P	58	02/14/2007	0.62	1,150	29.28
LO	2	7	C	63.5	01/17/2007	1.87	1,100	25.18
LO	3	7	P	55	02/14/2007	0.28	1,080	30.60
LO	4	7	P	57	03/15/2007	0.73	855	29.36
LO	3	7	P	62	02/14/2007	1.55	851	27.62
LO	4	7	P	63	03/15/2007	2.26	850	27.63
LO	12	7	P	50	11/13/2007	1.16	825	31.16
LO	2	7	C	65	01/17/2007	1.21	816	25.10
LO	12	7	P	60	11/13/2007	3.25	803	28.79
LO	5	7	P	55	04/17/2007	0.7	700	29.80
LO	3	7	P	64	02/14/2007	2.34	605	27.21
LO	6	7	P	55	05/17/2007	0.9	600	29.73
LO	2	7	C	68	01/17/2007	0.42	587	24.93
LO	5	7	P	64	04/17/2007	2.94	575	27.05
LO	2	7	P	65	01/17/2007	2.49	570	25.22
LO	3	7	C	73	02/14/2007	0.46	553	26.95
LO	6	7	C	67	05/17/2007	4.22	525	26.82
LO	12	8	P	69	11/17/2008	7.37	516	23.10
LO	12	8	C	69	11/17/2008	7.74	516	23.21
LO	3	7	P	64.5	02/14/2007	2.57	505	27.09
LO	12	7	P	47	11/13/2007	0.8	500	31.90
LO	6	7	P	65	05/17/2007	3.65	500	27.16
LO	12	7	P	55	11/13/2007	2.02	500	30.00
LO	12	7	C	47	11/13/2007	21.97	500	41.59
OB	2	7	C	1.8	01/26/2007	0.0269	104	29.84
OB	2	7	C	1.82	01/26/2007	0.0222	100	29.84
OB	1	7	P	1.61	12/26/2006	0.0035	59	31.68
OB	1	7	P	1.65	12/26/2006	0.0107	56	31.38
OB	1	7	C	1.75	12/26/2006	0.0084	55	31.99
OH	3	7	C	2	02/23/2007	0.0285	115	30.57
OH	4	7	C	1.87	03/27/2007	0.081	101	29.03
OH	3	7	C	1.91	02/23/2007	0.0478	100	29.69
OH	1	7	P	1.92	12/26/2006	0.1898	100	36.91
OH	8	7	C	1.9	07/26/2007	0.1227	100	26.51
OH	3	7	C	1.86	02/23/2007	0.0615	100	28.72
OH	3	7	P	1.86	02/23/2007	0.1193	100	28.84

The Shetland Islands Council stated that Brent crude liftings from Sullom Voe fell to 247,428 tons from 374,572 tons in the week ending December 18.

Russian pipeline oil exports are expected to fall to 4.24 million bpd in January-March 2007, down from 4.32 million bpd in October-December 2006. The Black Sea port of Novorossiisk is expected to load 11.1 million tons of crude in the first quart of 2007 while the port of Tuapse is expected to load 1.23 million tons. The port of Odessa is expected to load 2.9 million tons while the port of Primorsk is expected to load 18 million tons.

According to the Petroleum Association of Japan, the country's kerosene stocks fell by 3% to 4.7 million kiloliters or 29.56 million barrels in the week ending December 16. It reported that crude stocks fell by 1.77 million barrels to 106.15 million barrels while gasoline stocks increased by 260,000 barrels to 13.55 million barrels on the week. It also reported that Japanese refiners operated their facilities at an average 88.7% of total

capacity of 4.83 million bpd, up from 86.7% the week before.

### **Production News**

Nigerian militants threatened to kill four Eni SpA oil workers abducted several days ago unless the Nigerian government released four Nigerians currently in jail. It was the first time the Movement for the Emancipation of the Niger Delta threatened to execute hostages as part of its strategy to gain control of oil resources.

Abu Dhabi Marine Operating Co said Abu Dhabi would increase production at its Umm Shaif oilfield by 50,000 bpd to 250,000 bpd by 2010 with a gas injection project. Abu Dhabi has been working to increase output capacity to 3.5 million bpd from about 2.7million bpd.

According to a Reuters survey, Russia's oil output is expected to grow by 2.5% to 9.89 million bpd in 2007 compared with a 2.2% growth in 2006 to 9.65 million bpd and 2.7% growth in 2005.

OPEC's news agency reported that OPEC's basket of crudes fell to \$57.44/barrel on Tuesday from \$58.40/barrel on Monday.

### **Market Commentary**

The oil market posted a mostly neutral trading session after the market settled relatively unchanged from its opening price of 63.70. The market initially rallied to a high of 64.15 following the release of the DOE report, which showed a large draw in crude stocks of over 6 million barrels. Crude stocks fell in light of the closure of the Houston Ship Channel. The crude market however quickly erased its gains and sold off to a low of 63.25 amid the losses in the product markets after the reports showed builds in product stocks. The crude market later bounced off its low and settled in a sideways trading pattern ahead of the close as its gains remained limited by the builds seen in the product stocks. It settled up 26 cents at 63.72. Volume in the crude market was light with 114,000 lots booked on the day. Crude volume on Globex was better with over 215,000 lots booked during the open outcry session. The heating oil market sold off to a low of 171.20 after the DOE report showed a build in distillate stocks of 1.2 million barrels on the week. However the market bounced off its low and rallied to a high of 175.10 in afternoon trading. The market later erased some of its gains and settled down 1.17 cents at 173.04. Meanwhile, the RBOB market posted an inside trading as it failed to breach Tuesday's trading range. It traded to a high of 171.50 before it sold off to a low of 168.25 in light of the build in gasoline stocks reported by the DOE. The market later retraced some of its losses and settled in a sideways trading pattern ahead of the close. It settled down 1.76 cents at 169.30. Volumes in the product markets remained light with 27,000 lots booked in the heating oil market and 22,000 lots booked in

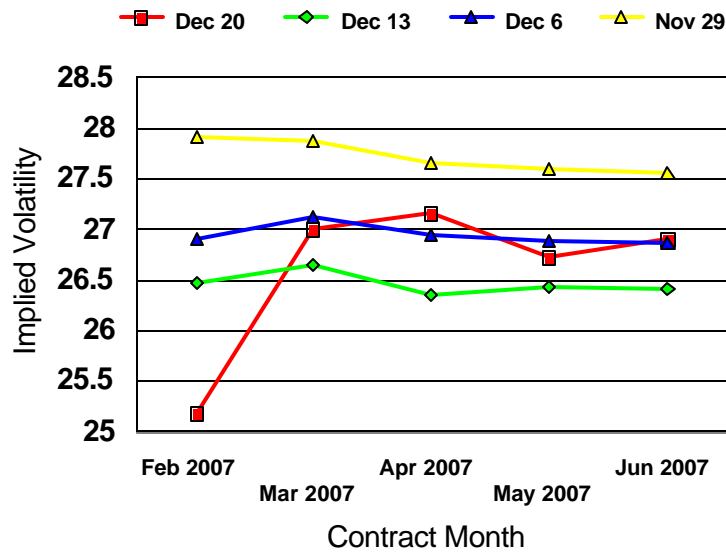
the gasoline market.

Heating oil and RBOB volumes on Globex were higher with each trading over 31,000 lots.

The oil market is seen trading

Technical levels			
	Levels	Explanation	
CL 63.72, up 26 cents	Resistance	64.25, 64.70, 65.05	Previous highs
	Support	64.15	Double top
		63.50, 63.25	Wednesday's low
HO 173.04, up 1.17 cents	Resistance	62.40, 61.65, 61.50, 61.05	Previous lows
	Support	175.60 to 175.90, 179.20	Opening gap (December 18), Previous high
		175.10	Wednesday's high
RB 169.30, down 1.76 cents	Resistance	172.50, 171.20	Wednesday's low
	Support	170.15, 169.15, 168.80	Previous lows
		173.00, 175.00, 176.75	Previous highs
	Resistance	171.00, 171.50	Wednesday's high
	Support	169.00, 168.25	Wednesday's low
		165.50, 165.00 to 163.25	Previous low, Opening gap (December 14)

## NYMEX WTI Crude ATM Options IV Basis Settlement



sideways after its gains remained limited during today's trading session despite the large draw reported in crude stocks. Volumes are expected to continue to thin out ahead of the holiday weekend. If the market breaches its double top at 64.15, the market is seen finding further resistance at 64.25, 64.70 and 65.05. Meanwhile support is seen at 63.50 followed by 63.25. More distant support is seen at 62.40, 61.65, 61.50 and 61.05.