HIGHLY CONFIDENTIAL

January 13, 2009

Good Morning

Overview

- Hydrocarbon prices declined overnight. **Crude oil down $1.12 to $36.47 per barrel; natural gas down $0.036 to $5.506 per mmBtu.**

News/Views

- As we suspected, the crude oil market appears intent upon re-challenging the December lows, with a few news items no doubt adversely impacting price. First, Gazprom indicated that if all goes well, volumes will begin flowing again today to Europe via the Ukraine now that the final sticking point of having European "metering monitors" has been resolved. Thus, as we had previously anticipated, the Russia/Ukraine gas crisis unfolded as a positive, but temporary, boost to hydrocarbon values early in 2009. A second factor, not mentioned by the neopress but which may have provided some underlying bearish sentiment, or rather lack of bullish sentiment, was the New York Times conclusion that Israel would have a difficult, if not impossible time of eliminating Iranian nuclear facilities without significant help from the United States.

- A month or so ago we had previously mentioned that the Israeli air force itself stated that the task would be challenging to say the least, and the market's recognition that there may not be any Israeli strike "out of the blue" reduced the probabilities that a surprise bullish geopolitical event would come out of the woodwork pulling crude oil prices back up, embedded with a renewed security premium. As also previously discussed over the past year, we did not, nor do not, believe that even if such an event were to occur it would result in any material disruption to Arabian Gulf oil flows, but invariably the market would not agree with us, at least initially. Another factor, though this is stretching it, was word that lo and behold the hijacked Saudi tanker, Sirius Star, has been released with ransom paid and crew secured. We are stretching this one because the market clearly stretched it when it gained on word that the tanker had been hijacked almost two months ago.

- Financial influences yesterday were obviously a weaker equity market and, to some extent, our old friend the crude oil/dollar trade. At the end of the day the dollar/euro rate was trading at $1.3378, a 0.4% change from late Friday. Updating our model would suggest that when viewed in isolation, prompt WTI "should have" declined by $1.00-$2.00 per barrel, thus confirming that other factors dominated yesterday's crude oil price decline. On an absolute basis, once again viewing the dollar in isolation, would imply a value for prompt WTI of $66.00 per barrel, also confirming the fact that fundamentals have re-entered the room as primary price determinants as well as the fact that relative to several months ago the crude oil/dollar trade has lost some popularity.

- Overall, sentiment remains quite negative, right or wrong, and traders see little reason to test the waters and buy at this point, possibly waiting for any technical confirmation that December's lows represented the seasonal bottom to the market. The one bright spot in the hydrocarbon market is the RBOB cracks, which we had mentioned a month or so ago as representing good value when looking at the spring/summer cracks at $2.00 per barrel or below, almost irrespective of the demand picture, since refiners are intent upon adjusting runs and yields to boost margins.

- Upcoming potential market movers include the monthly IEA report due out Friday, and it is difficult to assume that the report will be bullish. Otherwise, the weekly stats will be assumed to be negative, given the tendency to extrapolate from the previous week. Our cursory cut at the numbers would suggest a much smaller crude oil stock build than the 6.7 million barrel jump for the week ending January 2, as well as more modest inventory gains for distillate and gasoline.

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